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ABSTRACT

The transcripts of the testimony given before the Senate Committee by the Chairman of the Civil Service Commission, Alan Campbell, and Stanley Babson, management consultant and former vice president of finance for Technicon Corporation, are presented. Statements address the following issues of concern: age discrimination, management of job skills, retirement planning, inflation, and pensions. The appendices contain correspondence between the chairman of the Senate Committee, Senator Frank Church, and Campbell, Church and Babson, as well as a letter from William Withers, President of the New York Teachers Pension Association. (HLM)

RETIREMENT, WORK, AND LIFELONG LEARNING

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HEARING

BEFORE THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

NINETY-FIFTH CONGRESS

SECOND SESSION

PART 3—WASHINGTON, D.C.

JULY 19, 1978

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- Part 1. Washington, D.C., July 17, 1978.
- Part 2. Washington, D.C., July 18, 1978.
- Part 3. Washington, D.C., July 19, 1978.
- Part 4. Washington, D.C., September 8, 1978.

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RETIREMENT, WORK, AND LIFELONG LEARNING

WEDNESDAY, JULY 19, 1978

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, D.C.

The committee met, pursuant to recess, at 10:55 a.m., in room 6226, Dirksen Senate Office Building, Hon. Frank Church (chairman) presiding.

Present: Senators Church and Percy.

Also present: William E. Oriol, staff director; David A. Affeldt, chief counsel; Garry V. Wenske, assistant counsel for operations; Letitia Chambers, minority staff director; David A. Rust, minority professional staff member; Alison Case, operations assistant; Theresa M. Forster, fiscal assistant; and Madonna S. Pettit, research assistant.

Senator PERCY [presiding]. I would like to announce that Senator Church is still at the White House, but because of the time schedule of Chairman Campbell, we will proceed immediately and hope that Senator Church will arrive shortly.

Chairman Campbell, we appreciate your appearance today. We have had outstanding testimony in these hearings. As you well know, an increasing portion of our population falls in the 65 and over category. This is a matter of concern to the country and certainly ought to be developed, analyzed, and reflected in our policies. Your expertise and counsel in this area are very valuable to the committee and we welcome it.

STATEMENT OF HON. ALAN K. CAMPBELL, CHAIRMAN, CIVIL SERVICE COMMISSION; ACCOMPANIED BY THOMAS A. TINSLEY, DIRECTOR, BUREAU OF RETIREMENT, INSURANCE, AND OCCUPATIONAL HEALTH

Mr. CAMPBELL. Thank you very much, Senator Percy. With you sitting there and me here, I will occasionally lapse into some statements on civil service employment.

I am accompanied today by Thomas A. Tinsley who is Director of our Bureau of Retirement, Insurance, and Occupational Health. We are pleased at this opportunity to discuss implementation of the provisions in the Age Discrimination in Employment Act Amendments of 1978, which abolish the mandatory retirement age for Federal employees, which previously had been at age 70.

Although we are not certain, we do not believe that eliminating the mandatory age of 70 for retirement will have much impact on the Federal service. Statistics show that there has been a gradual but discernible trend toward early retirement among Federal employees, not unlike the private sector.

Over the past few years, for example, while the Federal work force has remained relatively static at about 2.7 million persons, the number of employees remaining in service long enough to be mandatorily retired has steadily declined. In 1956, of a total of 33,090 retirees, 2,391, or 7 percent, were separated under the mandatory retirement provision of the law. In 1977, this dropped to 1,773 of 85,568, or 2 percent mandatorily retired.

The retirement trend for employees in general has followed essentially the same pattern. The average age of employees retiring has, for example, declined from 63.2 years in fiscal year 1970 to 58.3 years in fiscal year 1977. This data would seem to indicate that eliminating the requirement for mandatory retirement at age 70 would not create an obstacle to the employment of younger people in the Federal service.

Although we do not expect any major impact from this law, we are currently studying its effects as mandated by Congress. The study report, due January 1, 1980, will only encompass 1 year of experience and thus will permit us to draw only tentative conclusions. The report will make before-and-after comparisons in selected agencies, by age groups, in such categories as retirement, other separations, hiring, promotions, and discrimination complaints.

Since mandatory separation in the past has affected few Federal employees, we expect no serious increase in the number of older employees which might adversely affect the efficiency of the Federal service.

MEASURING JOB SKILLS

Concerning the development within Federal agencies of objective means of determining job skills obsolescence, the removal of mandatory retirement can be expected to impact performance evaluation programs in at least two ways. The first impact is upon the manager who, seeing his staff growing older, begins to interpret the performance evaluation guidelines more strictly in evaluating middle-aged and elderly employees to provide an alternative to mandatory retirement. The second impact is upon the employees themselves, whose job skills become outdated over time and must be renewed or changed.

Senator CHURCH [presiding]. Aren't you saying, in a rather opaque way, that the alternative to mandatory retirement is firing people who don't perform outstandingly?

Mr. CAMPBELL. Well, what we are saying is——

Senator CHURCH. If that is possible in the Federal service.

Mr. CAMPBELL. What we are saying is that we will need to evaluate the performance of older people carefully because retirement will not be mandatory, and that will put a new burden on performance evaluation that it has not had before.

Senator PERCY. Could the charge be made the older workers are subject to unfair evaluations and standards?

Mr. CAMPBELL. I don't think we have any evidence to suggest that that is the case. I would guess, as I am sure you would, that if a person was relatively near retirement, the tendency would be to relax the application of performance evaluation standards in anticipation of any problem solving itself in a short time through retirement.

Senator PERCY. Do you, in your testimony, expand on the phenomena of why so many are retiring earlier, and the underlying reasons for it?

Mr. CAMPBELL. No.

Senator PERCY. Briefly then, in your judgment, what are those reasons? When you consider the popularity of mandatory retirement at age 70 rather than 65, and the support for this change by retirement groups representing senior citizens. Why this phenomena of people leaving? The inflationary pressures and the high cost of living would seem to encourage retiring at a later age, yet the Federal Government, which is the largest employer in the country, seems to be encouraging early retirement of their employees.

Mr. CAMPBELL. I don't believe we have systematically questioned people who are leaving to determine why. Our impression is that the Federal retirement system does indeed make it economically feasible to retire. The possibility of a job after retirement outside the Federal sector, and the automatic cost-of-living increases for Federal retirees, make retirement quite feasible.

Second, I would think that organizations want to bring in new talent, new energy, particularly in middle and upper management. From what I know of the private sector, I believe it also applies in corporations. So corporate executives were very much concerned about the change in the mandatory retirement law. There probably is some encouragement of people to retire once they are eligible.

Senator CHURCH. Please continue.

Mr. CAMPBELL. Basic to all our considerations, however, is the need for more effective performance evaluation for all employees. May I add that adequate performance evaluation is critical to the entire civil service reform effort, as well as to what we are discussing today. A performance evaluation program should include positions described by skills and abilities required. Staffing and performance standards must be reasonable and job-related, and not arbitrarily exclude or discriminate against older workers. The needed skills, abilities, knowledges, and aptitudes necessary for satisfactory performance must be specified and justified. Neither chronological age nor other nonmerit requirements are legal except for isolated positions having bona fide exceptions.

Each employee should receive an impartial evaluation to determine the adequacy of current performance and capacity to continue performing on an assignment. The performance should be measured against established performance standards or against specific performance goals.

Appraisers should be trained and coached, and the appraisals should be monitored, to insure that the system is understood and applied without bias.

Provision should be made for additional assessments of individual skills and abilities through interviewing, testing, or other methods to determine training needs and/or qualifications for alternate job assignments and responsibilities.

Components of Evaluation

Other systems would supplement the basic performance evaluation system to provide corrective solutions to performance problems and to assure the absence of age or other discrimination in the process. These include:

Counseling and guidance would be provided under this program to help each employee evaluate personal abilities, limitations, interests, goals, and plans. For employees whose performance is found to be unsatisfactory, additional assessments of individual skills and abilities would be provided through interviewing, testing, or other methods to determine training needs or qualifications for alternate assignments and responsibilities. The program will also assist employees in individual retirement planning and aid in solving alcoholism, drug, financial, and other life adjustment problems.

Modified work arrangements, where appropriate, may also be provided for employees who want to continue to work but at a reduced activity level. Included among such arrangements may be: Part-time work; special work assignments; voluntary reassignment to lower position and pay; and other flexible work arrangements.

To retire or terminate an older employee would require evidence that would stand up in court that the employee was not performing properly—the employer must demonstrate that the separation was not based on age alone. To obtain this evidence, agencies would have to make their programs for evaluating employees more objective. All ages must be evaluated on the same basis. Evaluating an older employee under more severe standards is age discrimination.

Alternative work schedules are a way to continue to utilize advantageously the skills of older workers as well as all workers. Over the years, the Commission has provided encouragement to agencies with needs for part-time workers. Several Commission publications have highlighted the benefits derived from part-timers, for example, "Part-Time Employment," in Women in Action, [Federal Women's Program, CSC], January–February 1978; "A New Look at Part-time Employment," in Civil Service Journal, July–September 1977; and "Flexibility Through Part-Time Employment of Career Workers in the Public Service" [Personnel Research and Development Center, CSC], June 1975.

Part-Time Work and "Flextime"

The Commission is also working with the Office of Management and Budget to make the personnel ceiling system more conducive to the use of part-time workers. Under current definitions, a part-time employee consumes one ceiling space whether that employee works 2 hours or 39 hours per week. Because of the limited number of ceiling spaces, managers have no incentive to use their allocations to hire employees for less than the number of full-time staff hours.

I wish to emphasize that we favor the expansion of part-time opportunities in the Federal service and, as you know, flextime has proved to be a very satisfactory way of organizing the workday.

Flextime has been adopted in more than 150 Federal Government installations covering more than 141,000 employees. Additionally, the Commission is strongly supportive of the Federal Employees Flexible and Compressed Work Schedules Act—S. 517 and H.R.

7814—which recently passed in the House by a wide margin and is presently under consideration by the Senate Governmental Affairs and Human Resources Committees.

In addition to the favorable impact on Government operations, and the extension of hours of public service which we believe will result from use of alternative work schedules, we foresee a number of social benefits flowing from widespread use of these systems. Rush hour traffic, for example, can be dispersed over more hours in the morning and evening with a commensurate increase in the operating efficiency of public transit systems.

More important to this committee is the favorable impact flexible working hours can have on older workers. Testimony from representatives of organizations of older persons on the Federal Employees Flexible and Compressed Work Schedules Act mentioned that many older workers would find it easier to commute by public transportation outside rush hours when sets were more available. Some older persons wake up very early in the morning and would like to start work during their own most productive hours. Others find that they need a little longer time at home in the morning and prefer to work later schedules. All of these personal needs can be easily accommodated under a flexible working hours program.

Preretirement Training

You asked in your letter for a status report on preretirement training. Chapter supplements 831-1, 780-1, and 890-1 of the Federal Personnel Manual require that counseling be available to employees about benefits to which they are entitled by right of their employment. Thus, employees must be offered, and if they wish, be provided counseling in addition to the general information made available to them on retirement, health benefits, and life insurance.

In fact, a new employee is provided a certificate of membership in the civil service retirement system. It contains much of the basic information about the retirement system—eligibility requirements, creditable service, annuity computation formula, and more. They are also furnished information concerning other benefits.

Formal retirement counseling seminars are usually aimed at employees within 5 years of eligibility for retirement; that is, generally age 50 and up. Preretirement seminars use technical experts from the Social Security Administration, local banks, and hospitals or clinics, covering such subjects as estate planning, taxes, nutrition, and housing. Other speakers may include retired employees and members of retiree organizations. In addition to informational materials produced and provided by the Commission, many agencies supplement this effort with other information, such as commercially prepared booklets which are mailed to the residences of employees nearing retirement eligibility.

Aside from the Commission's role in encouraging and assisting agencies to make preretirement planning services available to Federal employees, the Commission has recently become more active by responding to requests to participate in agency programs. During 1978, we participated in 29 preretirement seminars. These seminars have been well received and most agencies are planning to reschedule preretirement counseling sessions later this year.

O

Our view is that preretirement counseling is a continuing learning process—starting with the initial orientation about the benefits provided by an employer, progressing to periodic reminders—via informational issuances or group meetings—throughout one's career, and culminating in formal seminars or individual counseling sessions in the years immediately preceding retirement. We will, however, continue to review existing policy in this area and make any changes which will assist employees in making decisions concerning retirement, and make the transition from the work-a-day world into retirement smooth and satisfying.

I wish to thank you for the opportunity to discuss these matters with you this morning. I will be pleased to do my best to respond to any additional questions or requests you or the members of the committee may have.

Senator CHURCH. I know your time is constrained this morning. Senator Percy, you had the opportunity to hear the whole testimony and I would like to defer to you for some questions.

Senator PERCY. First, I would like to ask about the preretirement training you mentioned in your testimony. Several other witnesses addressed this issue and spoke on various topics—nutrition, housing, relationships, and so forth—and their relation to retirement. Poor retirement planning causes problems, such as selecting a favorable climate and then finding out they have the sunshine but they don't have friends, and then becoming disillusioned.

Have you found that counseling seminars are valuable for the prospective retirees?

Mr. CAMPBELL. Mr. Tinsley certainly has more experience in this area than I have and I ask him to respond to that.

Mr. TINSLEY. The programs, Senator Percy, are usually tailored to the audiences. We have no standard programs. In many instances, we discuss relocations to another geographic area unfamiliar to the retiree except for a previous vacation. We believe it has been very productive to discuss economics, geography, and things of that nature.

Senator PERCY. The civil service is quite unique when compared with the private sector, because moving the retirement age from 65 to 70 is expected to have little impact. A civil service employee may retire at the end of 30 years of service with approximately 56 percent of his three highest years of earnings as his retirement income. Is that a more generous kind of benefit than most individuals have available to them in the private sector?

Mr. CAMPBELL. I ask Mr. Tinsley to comment.

Mr. TINSLEY. You can retire at age 55 and 30 years service with full annuity. In most private systems, if you retire under age 60, there is usually a substantial reduction, which tends to discourage earlier retirement. So the earlier age permitted by the Federal Retirement Act is a liberal provision and it does encourage early retirement.

Senator PERCY. Even though individuals may only be in their late fifties or early sixties, the benefits they accrue from staying on after 30 years, staying on to age 65 or 70, is not commensurate with the benefits they could get if they just stopped their Federal service and maybe got a part-time job some place else. Their retirement from civil service is not at all affected then by outside income.

Mr. CAMPBELL. As long as that is not in the Federal Government, it is not affected.

Senator PERCY. So, in a sense, it is possible that most of these people are not retiring, rather they are just leaving the Federal Government and seeking employment in other places. Do you have any studies, Chairman Campbell, which indicate this to be true?

RETIREMENT OR NEW CAREERS?

Mr. TINSLEY. We have no detailed study, Senator, but one study several years ago, when we had the problem of frozen salaries for a considerable period of time, indicated that people were leaving and going into second careers. In fact, more and more of this is occurring, even in the private sector, where people leave and engage in a second career. Very few people who retire at age 55 or even at 60 today, really retire in the strict sense of the word, they usually find other gainful employment, if possible.

Mr. CAMPBELL. I would like to make one further comment if I might. It is important to keep in mind that with Federal pay for executives, operating the way it does, that is, long periods of frozen pay, frequently retiring and receiving cost-of-living allowances which would in the long run, produce more income for the retiree than staying in service.

Senator PERCY. Those are all things that ought to be brought up under civil service reform, I suppose. As to how long this policy can be continued, especially in view of the fact that people are living longer. I don't know. Social security will go bankrupt if we continue the current retirement policy of eligibility for retirement benefits after 20 years service. If those people are not going to retire from the work force, then they are going to spend the last 5 years of that 20 years of service lining up another job. They are going to be working while collecting retirement pay. Is there some concern in your mind, Chairman Campbell, as to whether or not we are going to be able to sustain and afford this policy in the light of increasing longevity, and in the light of the number of people who are seeking early retirement, leaving the service at a prime time in their life, but taking their talent some place else?

Mr. CAMPBELL. I think it is a serious problem. It is a problem, particularly in the Federal sector, because of the relatively early retirement age. I would suggest, however, that it is a total societal problem, as more and more people have valuable time left in their careers following their retirement.

I would make only one point; that we are under legislative mandate to produce a study, along with HEW, the Treasury Department, and OMB, to report to Congress by 1980 on the combination of the Federal retirement annuity system with the social security system, and that study will look extensively into the kinds of problems you just raised.

Senator PERCY. I think, Chairman Campbell, you could be excused. We appreciate, very much, your appearance here today. I have two other questions but your colleague could answer them for you if you must leave. I am not sure whether Senator Church wanted to question you personally.

Mr. CAMPBELL. I just would like to add that these are matters of tremendous concern to those of us having responsibility to the Federal work force, and we look forward to working with this committee in this area.

Senator PERCY. Thank you very much.

Mr. Tinsley, one question on social security. There is a provision in that bill which reduced the amount for the surviving spouse. Would the 5-year grandfather clause in this protect employees who are close to retirement and include social security benefits in their retirement plan? Could you briefly explain the rationale for this provision and could you tell us what effect this will have on Federal employees, particularly in terms of retirement income which will be available to them?

Mr. TINSLEY. Although I was not privy to the development of that provision, I think the rationale grew out of a sense that individuals were beginning to be able to multiply their retirement income by virtue of acquiring eligibility for retirement benefits under various systems. There was a particular political sensitivity, and a sensitivity on the part of the public, to the fact that some civil service retirees, particularly those who retire early, go out and obtain eligibility under social security, and, therefore, they are getting two benefits from the Federal Government.

There were a number of proposals to try to correct that problem, some of which were benefit offsets. One proposal contained in the fill involved the problem you mentioned; that is, the impact of combining the two systems. It will undoubtedly result in a reduction of benefits for some individuals. Beyond that, I would have to do much more analysis and study to be able to give you additional information.

Senator PERCY. We would appreciate that.

The difficulty of expanding part-time opportunities within the Federal service has previously been described. The way OMB counts job slots increases pressure within each agency to hire part-time employees who will work almost a full-time schedule, 30 hours a week or more. What can be done administratively to correct the situation? Is there a need for any legislative action on our part and, if so, would you recommend any such changes?

Mr. TINSLEY. There is part-time legislation currently in Congress. The Civil Service Commission and OMB, however, are already acting at President's Carter's direction to expand part-time opportunities under existing rules and regulations. Regardless of the legislative outcome, this effort will continue.

Senator PERCY. Finally, we have heard testimony on part-time modified work arrangements such as part-time work and flextime for older workers. How prevalent are such arrangements in the Federal Government, and can you cite examples where these arrangements have been used successfully? To what extent do we need to expand the provisions of these to have a timetable or have such arrangements available?

Mr. TINSLEY. I don't think the practice has been very widespread to date, Senator. It is part of both the planning of the Civil Service Commission and the agencies to expand these efforts. The impetus here came from the President's interest and direction to all agencies to expand permanent part-time opportunities for employees of all types. Although the effort has been underway only since last fall, the results thus far are encouraging. Part-time permanent employment is up by almost 20 percent over last year. We hope this progress continues, and as I mentioned earlier, are taking a number of administrative actions to ensure that it does.

As far as flextime is concerned, Federal agencies have initiated programs with the limited forms of flextime permissible under current law. Legislation to expand the types of flextime schedules available for use in Federal agencies has passed the House and is presently awaiting action in the Senate. Passage of that bill would undoubtedly spur increased use of flextime in Federal agencies.

Senator PERCY. Thank you very much. I appreciate the information you have provided us with.

Senator CHURCH. Thank you, Senator Percy.

I appreciate your testimony. Thank you very much.

Mr. TINSLEY. Thank you.

Senator CHURCH. Senator Pete V. Domenici, the ranking minority member of our committee, cannot be with us today. He has, however, submitted a statement for the record, which I will insert at this time.

[The statement of Senator Domenici follows:]

STATEMENT OF SENATOR PETE V. DOMENICI

Mr. Chairman, during the past 2 days of hearings on "Retirement, Work, and Lifelong Learning," we have garnered a great deal of information on various topics related to changing work retirement patterns. The hearings, to date, have been informative and I have been most impressed with the testimony presented. We are beginning to bring these issues into clearer focus, which I hope will lead to the formulation of plans and policies consistent with our changing demographic situation. Today, we will hear from our last two experts, Chairman Alan Campbell of the Civil Service Commission, and Stanley Babson, an industrial financial consultant.

Chairman Campbell's testimony and his comments on Civil Service Commission efforts in the area of innovative work arrangements should be helpful and informative. As older Americans choose to remain in the work force for longer periods of time, they will need a more flexible work structure so that they can cope with changes in their needs and capabilities. Preretirement counseling, trial retirement, gradual retirement, and part-time employment will help our citizens adjust to longer work spans. As the largest single employer in the country, the Federal Government has an opportunity to serve as a laboratory in the search for viable alternative work modes. Those approaches which prove successful in the Federal civil service can then be adapted for use by State and local governments, as well as the private sector.

Senator Chiles and I recently introduced legislation, S. 2805, the 1978 amendments to the Comprehensive Education and Training Act, which includes a provision designed to expand job opportunities for older workers. I am pleased that the portion of our bill entitled "services for older workers" was incorporated into S. 2570, the CETA reauthorization bill which will soon be considered by the Senate. Our provision encourages older worker participation in work sharing and flextime arrangements. The latter of these two innovations is, in my opinion, a most interesting work style alternative. It has worked well in some Federal agencies, and implementation of the flextime concept on a broader scale is worthy of full exploration. I am interested to hear from Commissioner Campbell about the extent and effectiveness of flextime among Federal employees.

Needless to say, both private industry and the Federal Government must adjust to the changing demographics which accompany the imminent "senior boom." While it is appropriate for the Federal Government to take the lead in the development of flexible work arrangements, experiments in alternative work styles should also be pursued in the private sector. In this regard, I look forward to hearing from Mr. Babson about industry attitudes toward, and implementation of, various nontraditional work arrangements.

I also hope that Mr. Babson's testimony will concentrate on the costs associated with changing work retirement trends. As a member of the Senate Budget Committee, this subject is of tremendous interest to me. I have reviewed Mr. Babson's testimony and found it to be a very thoughtful analysis of the economic ramifications of changing work retirement styles. I believe today's witnesses will contribute significantly to our efforts to explore, in depth, the evolving roles of employment and retirement in our dynamic society.

Senator CHURCH. Our next witness is Stanley M. Babson, Jr., who is a management consultant and former vice president of finance for the Technicon Corp., and the author of a book called "Fringe Benefits, the Depreciation, Obsolescence and Transience of Man." Interesting title.

Your statement is nearly as think as your book, Mr. Babson, but I am confident that you will submit it for the record and highlight it for the committee.

STATEMENT OF STANLEY M. BABSON, JR., NEW CANAAN, CONN., MANAGEMENT CONSULTANT, AND FORMER VICE PRESIDENT OF FINANCE, TECHNICON CORP.

Mr. BABSON. Senator Church, Senator Percy, I am deeply honored to be permitted this opportunity to be a speaker before your committee. As I pointed out in the text of my statement submitted to you, I am really surprised to be here because I don't consider that I am an expert on pension planning. I have been the chief financial officer of a variety of companies over the last 25 years ranging from $2 million in size up to over $200 million in size, and therefore I have been interested, from a private sector standpoint, in this whole matter of the economics of "people cost," and not just retirement alone.

Many of the comments that I have put in my statement, which has been distributed here, come from my book, and I have to advise you that my material may be somewhat dated. Some of the thoughts and provocative arguments that I may have raised 5 years ago are rather like yesterday's mashed potatoes these days, because every newspaper you pick up has similar comments from a variety of experts. I do appreciate the opportunity to be here and I hope that I can contribute something to this committee's very worthwhile project.

There is no way in the time that you have allotted to me that I can go over the 46-page statement that I have submitted.[1] Therefore, I urge you to read it, because I have tried to be provocative and thoughtful in some of my comments, and deliberately so.

As I understand the purpose of this hearing, it is to bring into focus what is happening currently in the United States regarding the trends of aging, retirement, and employment opportunities for the aging, together with the economic consequences of such trends, whether funded privately, publicly, or both. Therefore, really, the only thing I could accomplish here—and I think that perhaps this is all you wish me to accomplish—is merely to try to pose to you some fundamental questions or issues as I see them as a financial observer from the private sector.

First of all, I think that it is important to review the background of our ideas and philosophies of people and the importance of people as a resource to our society. Therefore, I have developed the first section of my material on the question of whether we should see man—when I say man, I mean women here, too, that is, the working person—as an asset to our society and to the industrial enterprise, or whether man is just merely an expense and not an investment.

Being a financial man, I have come from the public accounting community, the financial community, and the industrial community,

[1] See page 196.

and it is rather interesting to me that the historic perspective of man in this environment is as an expense. We charge him off to the profit and loss, and the earnings per share of the corporation, and we really don't consider that he is an asset or an investment to any large degree. This is very startling to me because other resources, such as capital, such as facilities, and such as equipment; we don't treat that way at all. We consider they are assets. Yet, they are passive assets and they don't "do" anything of themselves. It is man that is the dynamic catalyst in this whole equation.

You take, in public accounting philosophy, a building or a piece of equipment and you elect an arbitrary life such as 10 years for a piece of machinery, or 30 years for a building, and then you charge off that investment to your operating expenses and your costs over that period of time. But there is nothing that says that when that period of time is over that you immediately discard that asset, that you say that that investment is no longer of any value to you, or to the corporation, or to society at large. Actually, fully depreciated assets are frequently in use. I think that you could go to any plant in the United States and you would find something that has outlived this defined chronological timeframe.

Senator CHURCH. My two automobiles would qualify.

Mr. BABSON. Right, but why shouldn't we consider that a working person is really the same kind of a thing? Why do we have to say that when he reaches a chronological point of time that he has no further contribution either to his company or to society? I personally reject that philosphy, and as you will see in the latter part of my statement, I am arguing that we should abandon the concept of mandatory retirement. I don't think it has a place in our society. I think the concept of people as a resource in our society is a fundamental philosophy that we should reexamine currently and establish positively.

INDIRECT PEOPLE COSTS

The second point that I wish to make in my text is that indirect people costs are kind of sneaky and they have been rising quite rapidly over the past generation. By indirect people costs, I mean other than direct salary and wages. It is interesting to note that from 1930 to the current day, they have increased over 10 times, that is a tenfold increase, and that is because they started from the very low base. But even when I wrote my book, 5 years ago, they were 30 cents on the payroll dollar at that time, and when you consider that the payroll dollar itself over the last generation, and even currently, is rising very rapidly, you can see that an indirect people cost increase of tenfold on a rising payroll base is an enormous geometric progression. Pensions and retirement cost are, of course, a fundamental cornerstone of that increase. There are other indirect people costs that I think are just as alarming and should be examined.

Senator CHURCH. Would you mention them?

Mr. BABSON. Well, certainly the trend toward more vacations, the trend toward more holidays, the trend toward a shorter workweek. Even within the last week, since I submitted my statement, there was a major article in the Wall Street Journal on some study that has been done by a Mid Western consulting firm that indicates that within 10 years the 32-hour workweek will be the norm. Whether that is true or not remains to be seen, but there is all of this trend for giving people more time off with pay, in other words, paying for more nonproduction.

I think this is a very worrisome thing, and something that we should be alarmed about as a society, becaues there seems to be a need and a pressure for what I call "the onward and upward society"—more time off with the same pay, higher retirement pay, early retirement, etcetera, and I think that one study that this committee should undertake is to understand why this need psychologically arises.

Is there some inequity? Is there a real need for people to work less time and get paid for nonwork? I don't know the answer to that, but I think it is a fundamental psychological study which should be made made so that we understand the motivation for people working and nonworking.

The third point that I think is important and really fundamental——

Senator CHURCH. May I just say that as the burden of cost connected with nonproductivity increases, it could reach a poing where the economy itself is no longer competitive, then living standards for everyone begin to decline, isn't that true?

Mr. BABSON. Yes, sir; I believe that is true.

Senator CHURCH. Prior to that point in time, I cannot tell you when that point of time will be reached, or if it will be reached, but from an industrial standpoint, what would industry do toward this problem?

Mr. BABSON. Well, one thing you do of course, is to go toward increased automation. To replace man, who has become too expensive an asset or a cost to the company, so that to protect your earnings per share, you go toward increased automation and reduced labor intensive activity. You try to reduce the labor intensive nature of your business to get away from this high pressure and this onward pressure. That is one thing you do.

Another thing you do is go to other countries. That is one thing that multinationals have done. It is not the only reason they go across, however. For the last 2½ years I have been involved in international operations and there are some major advantages in doing just that. That opportunity will be closed in due course of time because all wages worldwide will be leveled up eventually, I am sure. So that is a short-term opportunity at best.

COSTS OF RISING LONGEVITY

The third point that I think is fundamental is that people are living longer. There is no question about this. Mr. Califano spoke the other day about this in his opening remarks. It has been well known from many sources that longevity is definitely increasing. Even in my own lifetime, the increase in longevity of males is 10 years at least. I believe this trend will continue. I don't believe that we have just reached the point where people will now stop increasing longevity. I am sure that the biomedical community can advise you on this more professionally.

A 10-year increase in longevity, as I attempted to show in my statement, in a very simple illustration, could triple your planned pension costs. One of the things, of course, historically, is that people generally were not expected to live past 65. Now that they are living in increasing numbers to 70, 75, 80, and 85—my own father is 88 and I hope he goes to 100—one of the things that is inherent in this is that this is escalating enormously the cost of retirement. It is rather odd that there is a trend toward early retirement because this even further increases costs.

In my book 5 years ago, I calculated that, for certain planned assumptions which were realistic at the time, that a 5-year earlier retirement would increase your pension cost by 69 percent. Deferring the time by 5 years from 65 to 70 reduces your retirement cost by 45 percent, because your only have 55 percent as much to pay out. Now those figures obviously should be recalculated for the current variables now, but I am sure that the relationship would be similar, the same result would be presented to you. There is no question but that there is an enormous difference between having people try to retire at 60 or even 55, than retire at 70 or 75.

Senator CHURCH. This fact we know arises from the economic consequences of the needs of our society and the greater emphasis on increasing employment opportunities. The Government has long engaged in the practice of encouraging employees to retire early in order to reduce personnel on the payroll and to increase job opportunities, as a savings in unemployment costs, whereas in proof, such actions in reality, increase the total overall cost to the Government.

Mr. BABSON. Yes, I can understand why the Government, from a public policy standpoint, would be interested in encouraging earlier retirement, because you are concerned about overall unemployment in the United States. That is not the same motivation that private industry has. As a company executive, I have no interest in how long a line is standing outside the door, I don't feel I have any mission to just create jobs for people that are unemployed.

Senator CHURCH. If that line gets too long, will they break down the door?

Mr. BABSON. That may be true. But nonetheless, as a corporate executive, I'm more concerned with doing a good job with those that are already inside the door. I think this is a fundamental difference.

THE INFLATION FACTOR

Also, the effect of inflation after retirement is an additional factor. It is not surprising to realize that in the private pension plan sector it is not a very popular or widespread feature to see cost-of-living clauses in post-retirement benefits for retirees because the cost represents a significant increase. Further, just as a rule of thumb, the information that I have is that a 1-percent average annual inflation rate will create about an 8-percent increase in pension plan costs, given everything else is the same. If you translated this to a 5-percent average inflation factor, assuming that you could control inflation to 5 percent, this would further increase your pension retirement cost by about 40 percent, probably.

Senator CHURCH. Now 40 percent over the entire period of retirement?

Mr. BABSON. Right.

Senator CHURCH. On the other hand, if you don't have such provisions in a retirement benefit and inflation continues——

Mr. BABSON. Well, you erode the effective purchasing power of retirement benefits.

Senator CHURCH. Then you pauperize those that are retired over a period of time.

Mr. BABSON. Yes. But to build in a cost-of-living escalator, this could translate itself into probably something like 4 cents additional indirect cost per payroll dollar of working persons, just as a quick simple rule of thumb. This should be calculated out, but that would be my guess.

Well, what is a proper balance? I think one of the fundamental questions for the committee is, What is the proper balance between working life and nonworking life? If it is to start into the workstream at age 25 and work to 65, that is 40 years, but if it is to work until maybe 60 or 55, and then live in retirement for 5, 10, 15, 20, 25 years, would it not get kind of silly if we spent more time in a retirement mode than in a productive work mode? That does not make sense to me at all.

Senator CHURCH. Do you know what the average retirement age of the Federal employee is today?

Mr. BABSON. I don't know.

Senator CHURCH. It is 58.3 years.

Mr. BABSON. If they are really in retirement. But as we heard in our earlier dialog, this is not often the case.

Senator CHURCH. Many of them are not.

Mr. BABSON. Many of them are not, so they are going on to other forms of production of income, which should be considered in your overall retirement philosophy, in my opinion.

So I think we have a fundamental question of just how much "nonwork" can a society support. I like to refer to the concept of "a drone society," which is likened to the hive of bees, where you have a group of workers and a group of drones—drones don't do any work, they don't bring in any honey, they just "consume" and have "fun and games" with the queen. That may be the sort of society we are building in the United States.

Senator CHURCH. You mean the drones are sort of the queen's court?

Mr. BABSON. Yes.

Senator CHURCH. How do bees work this out?

Mr. BABSON. I think when they get too many drones in the hive they get rid of them. The hive can't support them.

Senator CHURCH. Do you know what the proportion is?

Mr. BABSON. No, I don't.

Senator CHURCH. We might get some informtion on this.

Mr. BABSON. Yes, but I don't know this.

Going on to the next idea, what is a proper retirement benefit? I am sure you are aware of the fact that there is a big difference, even in the private sector, of what different companies have. Bankers Trust puts out a survey of corporate pension plans, which shows you when you look at it, that there is a wide disparity in features between corporations. By feature, I mean, what is popular in industry today. So there is no norm for any such thing as a standard set of features.

There is an even bigger difference between the private and public sector, a startling difference to me. I don't know much about the private sector, but in the public sector, from what I have read and heard, I think that it is not uncommon to find in the Federal sector, and a lot of State and municipal sectors, that you could work for full retirement pay in maybe 30 years. I had thought that it was full retirement pay, not 56 percent that I heard from Mr. Campbell and his associate earlier today. I don't know what the facts are, but in industry, if I had to say what could be termed as the norm—and again I have a caveat on that, there is no such thing as a norm—but this could mean probably 1½ percent of final compensation, or final average compensation, per year of service, which means that if you have 40 years of service, that you have 60 percent of final average pay for a retirement income.

Senator CHURCH. In the Federal retirement, I believe that is 2½ percent a year. So it varies.

Mr. BABSON. There is a difference.

Senator CHURCH. A big difference.

Mr. BABSON. It is a significant difference. Now one of the things I feel, as a taxpayer, one that really bothers me, is to realize that there are some sectors like the armed services, where you can work only 20 years and get full retirement pay, and then shortly before you retire, I understand you can "take care of Joe" who is a nice guy, boost him up to lieutenant colonel, and have his retirement pay based on this late promotion to a job which he never earned. That is an abuse of our retirement funds, but I am sure there are many such abuses, both in the private sector and in the public sector.

WHAT IS PURPOSE OF PENSION BENEFIT?

One of the things that I urge this committee to do, and I think that there is a serious need for, is define the logic of a pension benefit. What are we trying to accomplish? What is our social philosophy? What do we expect a working man or woman to do for society, and what do we expect society to do for them, in terms of retirement compensation? What can our society afford?

I think that for a government that is committed to removing discrimination in all areas of our society, that you should address yourself to understanding the forms of discrimination in our own retirement system. To me, it is discriminatory for one man to work 20 years and another man to work 40 years for his retirement benefit.

It is discriminatory for a man to get at retirement 100 percent of his final pay to retire on and another to get only 60 percent of his pay. Then, of course, it is discriminatory to have one man have a protection against future inflation and another not to. So I think that there is a wide area of discrimination that I suggest that this committee look at and consider as part of its investigation.

The importance of cost controls. As a financial executive, I am well aware of the fact that there must be an incentive to control costs and abuses and there must also be productivity of the funds that you are using for retirement. In industry, the chief financial officer most likely is the man who is worried about this because he is trying to control and protect earnings-per-share performance. That is the code that the corporation in the industrial area lives by, and when retirement costs go up, the monkey is on his back to do something about it, and he will analyze different alternatives and options and ways of reducing that cost.

Senator CHURCH. May I just insert here, in order to correct the record, that under the Federal system there is a difference between the executive branch and the congressional branch. The congressional branch accrues a pension at 2½ percent a year, perhaps on the theory that life is very chancy for a Congressman. In the executive branch, where there is greater security, the percentage is different. For the first 5 years, the retirement is computed on the basis of 1½ percent a year; for the second 5 years, on the basis of 1¾ percent per year; and from the 11th year and beyond, on the basis of 2 percent a year.

Mr. BABSON. I think that there needs to be a serious incentive to control costs. I am not sure how this is accomplished in the public sector. I am sure how it is done in the private sector, because I have been engaged in this in a variety of companies over the last 25 years.

I also worry, as an individual, about Government distributions, because I have a feeling that they are psychologically perceived to be "free money." Somehow the Government is considered to be a money tree to be pruned by the opportunistic. I see cases of this in my own experience, and I am sure that you have many, many illustrations brought to your attention of the same thing. I feel that this is a very difficult problem, not just from an economic standpoint and a cost containment-standpoint, but from a moral and psychological standpoint as well, because I think that to the extent that the Government is in the "dole business" and is perceived to be in the "dole business" as opposed to redressing grievances and abuses, why you may run a serious risk of eroding the national morality and work ethic.

Should retirement be mandatory? There is no question that we are healthier and younger at age 65 today than we were 50 years ago. This has been amply documented. It has been referred to in the dialog surrounding your recent legislation, and there is no point of my dwelling on this discussion. I have covered it in my prepared statement.

If people wish to work, I think that in my view, it is better to pay them for work than to pay them for no work if you adopt a social philosophy that you are going to support a certain level of income for members of your society. I also feel that there is an important psychological and moral aspect to having a person work for his or her retirement and for his or her pay, rather than receiving it for not working. I would not overlook this aspect of the problem.

Many retirees, even now, I am sure, seek postretirement employment. I don't know what studies have been made of just how extensive this is, but I think that it is worth studying. I think we should study the purpose of retirement and what are we trying to accomplish, and why do people want to retire. Are they tired? Are they bored? Do they want to go off and have merely enjoyment of leisure? What do they want to do? I don't know the answer to that, but I think it is a fundamental question for this group to study the motivation of retirement itself.

WHY "ALL OR NOTHING"?

I think that it is important that we define a more variable alternative to an "all or nothing," "jump off the cliff," or "dump him on a trashpile" approach to when a man or woman reaches a chronical age in time. I don't think there is any purpose to be served by mandatory retirement. I reject the concept that there is no economic contribution to society or to a company that can be made by such a person on some basis. Therefore, my personal view is that we should totally eliminate the mandatory feature in any consideration of retirement philosophy, public or private.

The role of the Federal Government in retirement. I think the Federal Government is in the best position to understand the problem as it relates to all sectors of society, both public and private, and the need for planning and protection. I think the Government should develop the social philosophy that we want to accomplish, the strategic plans, and define the minimum specifications for retirement benefits, and perhaps even the maximum, too. I think some thought should be given to that.

I think the Government should see that all plans are adequately funded, that abuses are controlled. I think you should police implementation and reduce discrimination among the various sectors of our society. I personally believe in complete portability of pension contributions wherever sourced, from the cradle to the grave. That is not what we have in this country now. I think it is one of our key pension abuses and one that your legislation a few years back was designed to try in part, to correct.

I would go much further than that legislation. I see no reason why the people in our society should not earn their own retirement pay as they go along, and have it funded adequately and set aside for them. There are lots of techniques for doing this in both the public and private sectors. I would urge that all pension retirement contributions should be moved from company to company, for an employee, through his productive life cycle, no matter how many companies he works for.

Senator CHURCH. To what extent has this been accomplished by the legislation that is passed?

Mr. BABSON. Well, I don't think that the legislation has gone that far toward it. I think you have gotten a minimum. For instance, if I were a 27-year-old worker now, I could work for 9 years under your legislation, if I am correct, and still have earned no pension benefit at all right now, under your present legislation. This should be verified, but I believe that is true.

Senator CHURCH. And in a private plan?

Mr. BABSON. In a private plan, I believe that it is still an area of abuse and that pension contributions in industry that are being set aside for an employee should follow him throughout his entire working career. Therefore, if you do that and an employee works for 40 or 50 years, he, together with his various companies, through mutual contributions of varying degrees, will have paid for his retirement benefit, and then you won't have the bind that you have now. I really urge that we move in that direction, both in the private sector and in the public sector, on a going forward basis and figure it out separately, as far as past service funding is concerned.

Senator CHURCH. Of course, with the social security coverage today extending to nearly all of our workers, that problem is mitigated to some degree. Practically everybody is covered by social security as they move from one job to another. So this really is a problem that is within the private pension system.

Mr. BABSON. Well, I partially agree, but I think that you should reflect on the redundancy I suggest in my statement. Actually, since I wrote the statement, it occurred to me since then that really, when you originally set up social security, there were no defined retirement goals, objectives, or philosophies, and there was no regulation or control of the private sector at all, such as you have now taken great steps to move into recently.

PUBLIC AND PRIVATE REDUNDANCY

Having gone now into the private sector in defining what they must do and the minimum specifications, et cetera, to the extent that you have, it seems to me that, administratively you have a partial redundancy between social security and private pension plans and that it may be more efficient to give corporations the option of merging these funding vehicles into one scheme so that you don't have two plans for the same employee. You have one, that is, either all private or all public, and then roll over that pension plan to the next corporation or to a centralized Federal pool of retirement funds.

There are a lot of choices that you could elect there, but I think some consideration of this redundancy should be examined from an efficiency standpoint.

Skipping on, because I realize we are running short of time, I have said something in my prepared presentation about the philosophy of setting aside, through a worker's productive life, a pension contribution for him which is really a mechanism for letting his company and he himself earn the pension benefit as he goes along through life. To me, I favor that philosophy. However you fund it, I still favor the philosophy of having an employee earn his level of pension benefit by work and by the attainment of the degree of skill that he has achieved. But I think that there should be minimum benefit, and one prescribed by Federal legislation.

I favor that approach as opposed to the public approach of what I call the "giant kiting operation," where currently you are taking from Peter to pay Paul, because there has been an inadequate sum set aside in the social security pool. But some day Joe Zilch, whom you are going to have to take money from 20, 30, 40, 50 years from now to pay for Peter's retirement, Joe Zilch may not be around or resist paying, and you will get stuck. I don't think that the Peters in this country realize this currently to a very widespread degree, and I don't think it is as sound a device as the earlier suggestion that I have made, which is used fundamentally in the private sector.

I realize it is an enormous task of getting over to that kind of a program in the public sector, and in some cases even in the private sector. I suggest, however, that we could do this over the next generation or so to cover the past sins and to consider the immediate possibility of starting this.

Dependency ratio, I don't think there is any need to discuss this here, I have covered it in the prepared statement. If you want to go into it, we can.

I have already discussed the elimination of the impact of mandatory retirement on private pension plans. Well, as Mr. Campbell, said I really don't see the problem. It has been my experience that the people who are reaching 65, when mandatory retirement was 65, who did not want to retire and who had a critical problem, there was usually a provision in the pension plans of private companies that if such an employee had a hardship case, that the board of directors of the corporation would consent to a relaxation of the rules for that employee. That has been my experience in the companies that I have worked with. Whether that is widespread or not, I cannot tell you, but I really don't think it is going to be a significant problem eliminating the mandatory feature entirely.

Senator CHURCH. All of the testimony we have had so far seems to agree that the legislation to increase the mandatory retirement age from 65 to 70 will not make much difference immediately in terms of employment decisions by workers. It appears that you approve of this legislation. We would like to see mandatory retirement eliminated entirely. In fact, it has been for most of the Federal employees. But do you think raising the mandatory retirement age is going to make much difference?

Mr. BABSON. I don't think so.

Senator CHURCH. With respect to the trend toward earlier retirement, and so forth, the impact of the law may be very minor in actuality.

Mr. BABSON. That is not the fundamental problem. Eliminating mandatory retirement really is de minimis, it really does not affect that many people. Certainly, if a person wants to work after 65 or even 70, I don't see how in good conscience we cannot let them work providing they can do so safely, and pay them a fair wage for whatever task they perform. But that is not really the fundamental problem. The problem is that people are not staying to 65, and they are not staying to 70, and I think it is important to understand why not, because if the reason why not is that we are creating too liberal a pension benefit and making it too attractive for them to retire, than I think we may be building a real problem for ourselves and our people down the road.

Senator CHURCH. Although we have seen some cases where people have managed to add one pension onto another and retire under even more favorable circumstances than when they were still working, those are exceptional cases. They certainly don't represent the typical case by any means. Typically, I think we were told on Monday that social security replaces, on the average, about 47 percent of a worker's prior wage.

REASONS FOR RETIREMENT

If 47 percent is typical of the average of retirement income, as compared to working, then I would not think that it is because we are overpaying retired people on the whole, which leads them to want to retire early. My guess is that they don't find their work sufficiently compelling. Look at professional people and some people who find their work sufficiently rewarding. They frequently will work to advanced ages without retiring at all. We have many, many people who will do that, and I think it has more to do with the nature of the work and the sense of fulfillment. If people have engaged in work that they like, this is an incentive to continue working, or, in the opposite case, to retire early.

Mr. BABSON. Well, I think it is a very important point. I don't know how you reassess retirement—social philosophy, economically or otherwise—in the United States without having some kind of a study and understanding why people are retiring earlier. What are they doing and why are they doing it? I think to the extent there are no serious studies, it should be studied.

Senator CHURCH. We should look into that, I agree with you.

I am sorry to say there is a rollcall vote, and I must go soon. I wonder if you could sum up in a minute or two, because you are close to the end of your paper.

Mr. BABSON. All right. There are a few suggested possible approaches to the economic use of an aging working population, as I have suggested here in my report, to give more flexibility and more options to them after they reach, let's say, a trigger date, that could be whatever date is reasonable. They could either take earlier retirement at reduced benefits, continue working full time as long as they wished to, and can do so safely and productively, or to go into a manpower pool of part-time semiretirees, because they could serve a very useful function to the corporation that has a need for sporadic help outside and can use the help of its own retirees for that, and also eliminate lots of temporary overtime which is expensive, so there must be some usefulness in that.

Preretirement counseling. I believe this is going to become a substantial increased activity of industrial relations departments in the future.

I see no reason why we cannot develop the psychology and philosophy of downgrading an employee after he has reached a certain period of time, just like a product has a life cycle that rises and later declines. I don't see any reason why a person cannot do the same. It is surely an emotional problem. If you eliminate the personal stigma of John Jones taking a lesser job in the organization, then you can accomplish a useful and productive value to the corporation, to the society, and to the individual. We have got to get away from the personal stigma, and I think this can be achieved through a psychological campaign that begins when he joins the company, knowing that this is one of the options that will be available to him upon retirement at a certain age.

DANISH "DECRUITMENT"

There is no question in my mind but that this should be considered. There are people in Denmark that are doing this. In my prepared statement, I didn't refer to an illustration of a big company in Denmark where 70 percent of the executives and managers over the age of 50 indicated that they would prefer downgrading to retirement, and that some of them expected to even work past the age of 80. This is referred to as "decruitment," and it is working in Denmark. I think it is an interesting experiment. Certainly there ought to be encouragement for a lot of experimentation of this kind here in the United States, and I am sure it will happen.

[The prepared statement of Mr. Babson follows:]

PREPARED STATEMENT OF STANLEY M. BABSON, JR.

Senator Church, associated senators on the Special Committee on Aging, and members of your staff, I would like to thank you for the honor allowed me in being invited to present before you my ideas and thoughts on the subject of retirement trends and related costs thereof.

I must advise you, however, that I cannot claim to represent any particular group, industry, association, or even company and that my presence here is merely as an interested citizen, a financial executive who has been chief financial officer of small, medium, and large corporations over the past 25 years and, hence, exposed to the topic under consideration by this committee in a number of different circumstances, but always from the perspective of a financial officer of an industrial enterprise. I, therefore, cannot claim to be any sort of expert in this field of your investigation only an active and mature participant whose personal experience, personal curiosity and inclination may perhaps have developed some thoughtful reflections on this subject that are worthy of consideration. The ideas and observations that I will express in summary form herewith are largely drawn from my book, "Fringe Benefits, the Depreciation, Obsolescence and Transcience of Man," published by John Wiley and Sons in 1974. Some material from this book, together with supplementary comments I have furnished the authors in a taped discussion, were also included among the material published in 1977 by Dr. Harold L. Sheppard and Sara E. Rix, under the title of "The Graying of Working America."

THE OBJECTIVE OF THIS TESTIMONY

As I understand the purpose of this hearing, it is to bring into focus, from a variety of perspectives, what is happening currently in the United States regarding the trends of aging, retirement, and employment opportunities for the aged, together with the economic consequences of such trends, whether funded privately, or publicly or both.

This is a highly complicated subject matter, as I am sure that you are well aware, and a highly ambitious undertaking, but one I believe of overwhelming social as well as economic significance, and I certainly congratulate you on recognizing the need for such a current reassessment and starting this present dialog.

The particular objective of an initial meeting of this sort can only be to pose the issues, hopefully to identify most of the larger ones, and to begin to suggest ways to develop possible alternative solutions.

My own role in such an initial meeting can only be to present to you such issues, observations, and cost indications as would represent the perspective and interest of the financial executive of an industrial corporation.

Simplistically, the perspective of the financial executive of an industrial corporation relates to: (1) Strategies for increasing the revenues; (2) strategies for containing or reducing costs; (3) strategies for improving productivity and return on assets.

In this connection, I would try to generalize by characterizing the historic perspective of the financial executive as it relates to retirement and pensions as follows: (1) Compliance with the law; (2) reasonably equated with competitive practices in industry, particularly within a given regional area; (3) minimum cost to the company and minimum impact on current earnings per share, compatible with acceptable union/employee relations.

POSING THE ISSUES

1. *Is working man an asset or a cost?*

Accountants generally think of man in terms of cost, that is, an overhead expense, a charge against operations, a committed cost only relieved by "bodies out the door." This does not apply to direct factory labor, which is productive and, hence, may temporarily be deferred from the inevitable charge against income by being in the transitional stage we call "inventories."

It seems strange that we are accustomed to think of man in such terms rather than as another form of asset available to the industrial enterprise. Capital is unquestioned in its role as a necessary and fundamental resource and asset. Equipment likewise, and facilities, are readily accepted as "assets" for the benefit not merely of the present, but for a stream of future years and to be charged off to expense over such a future period of productive usefulness.

But what of man? Is he not also a valuable and necessary tool of production, as equally important to the corporation as capital and equipment?

Capital and equipment, to the industrial enterprise, are "passive assets," requiring man to translate them into effective earning power. Man, therefore, is the dynamic catalyst in the equation, but strangely enough, man in our current financial and accounting philosophies, is considered as an element of cost, either direct cost or indirect cost, ignominously assigned the demeaning term of "burden" and very rarely perceived as an asset to the corporation.

Also frequently ignored is the extent of the investment that corporations make in an employee. It costs to attract him, to recruit him, sometimes to relocate him, to train him, to maximize his productivity and momentum, and finally to terminate him.

All too often, these peripheral costs are lost sight of and superficial decisions can be made as to the temporary advantage to the corporation of an employee severance motivated by cost reduction per se.

This philosophy of man as a cost rather than an asset is particularly fundamental as it bears on the issue of retirement and early retirement.

With a piece of machinery, the proper and accepted financial strategy is to write off the cost over its estimated useful productive life. This is certainly proper in the view of the public accountants and also the IRS, the only difference being that they bicker frequently on the definition of acceptable useful life. But how often do you find in industry a piece of machinery that has been fully depreciated but still in use and still being productive to the industrial enterprise? Quite often, I think. There is no requirement that a piece of machinery is disposed of when its depreciation schedule runs out, no mandate that you vacate a building when it becomes fully depreciated per the generally accepted financial norms. So, why then push man out the door when he reaches a similar arbitrarily defined chronological point? Has his usefulness to the corporation suddenly disappeared from one day to the next? Is there nothing further that he can do? Is there no residual asset power remaining, even if of marginal benefit?

Logic would compel us to realize that this is an indefensible reasoning, I feel sure. And yet, this is perhaps one of the key issues to be considered by this committee, i.e., the concept of mandatory retirement itself. Mandatory retirement at any arbitrarily defined age, implies that the investment value of man is finished and there is no further productive contribution that is worth considering. I, personally, reject this concept.

2. Man's indirect costs are rising rapidly and are often not clearly perceived

There is no need to comment on the rise of direct wages and salaries over the past generation or so. This has been widely documented and is certainly well known. Perhaps somewhat less known, however, has been the "sleeper effect" rise of indirect costs, i.e., fringe benefits. As a percent of payroll, the more prominent and identified of such costs (as measured and reported) have risen from approximately 3 percent of payroll in 1930 to what in undoubtedly over 30 percent of payroll currently, a tenfold increase in ratio on a payroll basis that has itself had a major growth trend over the same period of time, creating in effect a geometric progression of cost increases and one that I feel is accelerating. Also, I am sure that the reported fringes fall short of what the real costs of such indirect items are, if everything were properly captured and identified.

Is this something to be alarmed about? Yes, in my opinion, surely. Firstly, because I believe the trend will continue. See now the social benefits of some of our European neighbors which are even more pronounced than ours here in the United States. Certainly, the tendency will be to continue in the "onward and upward society" that we seem to be in.

This trend, coupled with a continuation of spiraling salary and wage rates will keep raising the price tag for man as a resource. Industry, to protect itself from the impact of this spiraling cost of man, can either go elsewhere, i.e., overseas, where such costs may not as yet have reached this level (but this is at best only a temporary solution and it carries with it a great many other collateral problems as well that serve to discourage this approach). Another avenue open to industry in the face of this trend is to seek increased use of automation and, hence, less dependence upon the quantities of manpower currently in use. This could lead us towards what I choose to call "the drone society," where productivity is placed more and more in the hands of fewer people using highly automated resources at their disposal and the function of the rest of the population, whether aged or young, is to be "nonworking," to "consume," not to produce. This, I suspect, be where we're headed.

A second concern here is the "motivation" of why these extra fringes are needed and demanded. Is it because there is a fundamental need, or because in the gamesmanship of labor versus management negotiation, you have to "win something" in order to maintain status. This to me is an important point. Is there really a fundamental need for the extra holiday, the third week's vacation, the 32-hour work week, the dental insurance plan, etc., the provisions for early retirement, and for a higher level of retirement pay? What is the motivation that drives us in this direction? Is it some inequity that needs redressing? What is it? To the extent that these motivations have not been thoroughly studied, I believe that such a study is needed.

3. The economics of retirement, as it has been historically defined, are dramatically escalating

Retirement economics are really quite a complicated subject and there is much available literature and expertise on the matter. In order to pose the issue, however, let me be somewhat simplistic by saying that the logic, generally, is that a man will enter the work force, let us say at age 25, work 40 years to retirement at 65 and then have, from a combination of public and private sector pension funding, an annual annuity for life equivalent to perhaps 60 percent of his final 5-year average pay—again, I repeat, this is simplistic and there are many variations of this logic, but it serves the purpose of the discussion to use one particular set of circumstances.

This implies a defined period of productivity of 40 years. If final average salary at that time is $20,000 per annum, it means that an annual annuity of $12,000 per year for life must be provided. This sum of money presumably is to be provided over the span of 40 years of productivity so the cost per year translates down to a certain annual charge against corporate earnings. If the employee retires at 65 and lives to 70, 5 years of annuity must be provided by the pension benefit, i.e., $60,000. If he lives to 80, then an additional $120,000 for a total of $180,000 must be provided, and if he lives beyond this, even more. Thus, it can be seen that a 10-year increase in longevity can, in effect, triple the expected cost of retirement. Multiply this by the aggregate working population, and it can be seen that the longevity of our working population can be a very fundamental and dynamic cost to the industrial enterprise, directly and, hence, to society indirectly.

If an employee wishes to retire at 60 instead of a 65, without sacrifice to the level of retirement pay, then all of these costs, such as they are, must be provided over the shorter period of productive life.

The economics of this simplistic illustration are, in reality, horrendous and place what could be an extraordinary burden upon the industrial enterprise, and again, indirectly on the economic society at large, because any and all costs to the individual enterprise get passed on in time to the society within which it operates.

It is already well established that life expectancy in the United States is increasing, both for males and females. I personally believe this trend will further continue, but this I'm sure will be documented from the testimony of the biomedical community to this committee. I believe that it is important for us to forecast what further longevity is probable over the next 50 years because this bears significantly upon future costs.

A further major factor affecting future retirement costs is the matter of inflation. To build protection from future inflation into the pension benefit even further enlarges retirement cost by astronomical proportions and it is hard to doubt that future inflation will occur and perhaps even be as significant, or more significant, than it has been in the past.

And lastly, to contemplate a widespread social desire for earlier retirement and a motivation to enter the "drone society" and be a consumer rather than a producer, leads to further cost aggravation.

Can our economic society stand such costs? As a financial executive, I for one, am deeply concerned about this.

4. What is a proper retirement benefit?

The Federal Government has, for some time now, taken upon itself the role of defining "a minimum age," leaving the economic society the freedom to enlarge upon this at its own discretion, but providing, nevertheless, "a floor.'

It is somewhat disturbing to me that there can exist such wide discrepancies in the United States in the "logic" of a defined pension benefit. I am sure that pension plan professionals can give you elaborate testimony on this subject, both in the public and private sector, but I do believe the wide divergence of such plans cannot be overlooked. There are elements in the municipal and Federal government sectors that define such liberal pension benefits as to make the industrial sector look sick. Dr. Harold L. Sheppard has touched on this in his book, "The Graying of Working America."

But if society at large, one way or another, really "picks up the tab" for both industrial, municipal, and Federal pension costs, then it does become pertinent to examine why such a divergence exists, and is there real justification for it. To do this, there must first be developed a philosophy on man's role in terms of a productive contribution to society, and society's role in turn in providing him with a suitable retirement benefit when he is phased out of the productive mode.

I must say, as a private citizen and taxpayer, that it is anathema to me to be "ripped off" by some elements of our society that one way or another enjoy a totally unrealistic retirement benefit, totally out of context with a reasonable correlation to their productive contribution to society. For a government that is committed to eliminating discrimination among its citizenry, how can we justify one man working 20 years for his pension benefits and another working 40 years? How can be justify one man receiving a pension of 60 percent of final pay and another receiving over 100 percent. And one man having protection against future inflation, and another not? Or, a man being promoted just prior to retirement to a higher position and salary level so that his future stream of retirement benefits will be based on the higher level . . . a level he never really earned at all? All of this makes no sense to me at all.

In short, I think the Federal Government, and this committee, may well serve a useful purpose in attempting to define a "logic" for a norm in pension benefits. Again, freedom to enlarge upon this within reason can and should be left to any given institution, to fit any given local circumstance, but the norm should be defined as a guideline at least.

5. The importance of cost control—fringe benefits derived directly from the Government, or similar institutions, are perceived to be "free money"

While this is a somewhat provocative statement, I think, nevertheless, it has some pertinence and I personally believe it to have some validity. I think there is a corrollary that the farther removed from the source of money you are, the more you feel that it is "impersonal money"—"a free-bee," "up for grabs," and something that's "fair game to pluck" and take as much as you can get away with. Abuses of many of our social benefits are apparent and I am sure that the correction of such absues is administratively difficult and politically unpopular. However, in assessing the burden of pension costs and other social benefits in a society that is aging, the problem of abuse of those benefits becomes even more critical as burden is borne by fewer productive shoulders.

The problem with social benefits management is that there must be an incentive to control costs. In industry, the incentive falls with the financial executive who is oftentimes straining to protect or improve earnings per share performance for his corporation. Benefit cost controls become of vital interest to him in this perspective. I'm afraid that no such incentive or motivation exists for government-managed programs and perhaps even for institutionally managed programs like insurance companies and health agencies, where their rates are really geared to a "cost-plus" concept and high cost basis may mean higher administration pools of money available for them, etc. To the extent that public sector institutions are involved in the direct distribution of cost benefits to our citizens, I believe the matter of how best to establish incentives for effective cost control should be seriously reexamined. Federal cash distributions, must be directed towards redressing real misfortunes and not perceived as a money tree to be harvested by opportunists.

6. Should retirement be mandatory?

At what point does a man become unproductive from a working viewpoint, and do all men reach the same point at the same time, and does this mean that there is no further economic contribution that a person can make after such a point is reached?

I would be surprised if your biomedical witnesses did not advise you that it is difficult, if not impossible, to name a chronological date, that would have general applicability, where all workers could be realistically declared to be at the end of productivity. Where the age of 65 might have been such a possible date many, many years ago, it certainly does not apply in today's health-care-oriented world. The general physical well-being of persons aged 65 as a group is certainly far superior to what it would have been for a comparable group 50 years ago. No doubt about it, persons aged 65 are, as a class, much younger than a generation or two ago.

Moreover, it should be obvious that some persons age faster than others and whereas one man at a given age may be considered physically ready for retirement, another may be full of physical and mental capability and ready to go on for some time. Should this man (and society) be penalized by the application of an arbitrary norm?

And what about persons who do retire; is there no further contribution they can make towards productivity? The answer is most certainly—"of course there is," and a great many retirees, even now, seek and find other productive occupations and turn away from the concept of vegetating in leisure activities.

All of these observations are familiar to you and were alluded to in the text of the Age Discrimination in Employment Act Amendments of 1978.

Perhaps it would be useful to extend your dialog into this question to reexamine the purpose of retirement.

What is the purpose of retirement anyway? Is it a device to get rid of someone who is in the way, or a device designed to allow someone who wishes to step aside from productivity the opportunity to do so, or to change his lifelong pursuit of livelihood without income penalty. I, personally, favor the latter purpose—and yet, even under this definition, retirement shouldn't be an "all or nothing" choice—either 100 percent work or no work at all. There is no reason why aging persons, who wish to, shouldn't be allowed to scale down their participation over a period of years, with direct compensation reduced accordingly. Perhaps as direct compensation is reduced, such supplemental pay as is needed could be withdrawn from a "semiretirement fund," short of full pension pay. This is a possible approach which could be discussed under "possible solutions."

I think it would be important to study and learn an employee's motives for retirement. Is he tired? If so, why not scale down by degrees instead of all or nothing; it is certainly a cheaper approach than full-scale retirement. Is he bored? If so, why not a new assignment after a certain number of years? Isn't it conceivable that a person could be recycled into another type of activity entirely? If wage level is a barrier, let the new wage apply and again draw down a supplemental wage from a "semiretirement fund." Is he tired of work entirely and does he just want to go off and have a good time, i.e., join "the drone society" and goodbye to the establishemnt, etc.? This is his privilege, surely, but why should the rest of society make it overly easy for him to choose this path and leave us the burden of picking up the tab for its extra costs? There is no question but that a man who puts aside extra savings, or earns extra compensation, can certainly choose this path freely and without criticism. He is in effect paying out of his own savings the extra costs associated with this course of action. But this extra cost burden should not, and in the final analysis cannot, be placed upon society generally, in my opinion.

Another query for the sociologists associated with this project is not only to study the principle of retirement motivation, but also to study how much leisure can a retiree really enjoy. For example, in a working mode a man works, let us say, 220 days per year, which is 60 percent of his time, the remaining 40 percent being available, presumably, for leisure activities, if he so chooses. After retirement, the 60 percent disappears and it's 100 percent leisure activities. And for how many years—5, 10, 15, 20, 25, perhaps even longer in tomorrow's world?

Wouldn't it be silly if we structured our society that man spends as much time in retirement, living the leisure life as he does in his working career? Not only strange, but I doubt that our society can afford such a negative burden—this would truly be the creation of "the drone society" and would probably lead to decadence of our spiritual and moral will.

And, can a man really mentally and emotionally cope with such a large dose of leisure? I would tend to doubt it and would be interested in the response of psychiatrists and sociologists on this point.

It would be an interesting study to see what use, in fact, is made of the time of retirees? I would suspect that in a fair percentage of cases, supplemental part-time or perhaps even full-time employment may be happening. The facts of such a study should surely be developed and perhaps they could guide the restructuring of a sound retirement policy in the future for the United States.

7. What is the role of the Federal Government in retirement planning and funding?

The Federal Government, in my view, is in a unique position. First to understand the problem of retirement and the need for planning and protection as it applies broadly to all walks of life, all activities and industries throughout the United States, both in the public and private sector. This places the Federal Government, in my view, in the strategic planning role of defining the minimum (and perhaps maximum) parameters of what constitutes a suitable retirement benefit and how it will be funded and made available, as well as control of abuses and policing of implementation.

One of the big abuses of private pension plans in the past has been in the matter of vesting. Even though sums of money were, in fact, calculated and set aside for a given working man, if he failed to remain to full retirement with the company, certain of the sums, and on occasion perhaps even all of them, would be forefeited and he would not receive the pension for which he worked over those years. Congress has recognized this abuse and the need for portability in its recent legislation. It is my personal view that there should be 100 percent portability of pension benefits, either transferred from employer to employer, or from employer to central pool, managed by a separate Federal agency or private financial institution set up to administer such a fund.

In a society where productivity gains will become increasingly important to the trend of future standard of living levels, productivity of the use of money set aside to fund such a retirement pool is of major importance. Even as I demonstrated in my book, "Fringe Benefits," that within private financial insitutions there is very often considerable difference in the performance of the management of earnings of investment portfolio funds, the fund earnings bear significantly on the net costs of a given pension commitment to society. Therefore, productivity, or performance of fund management cannot be overlooked in this important issue.

As to the all important question of the role of the Federal Government in controlling the pool of pension funds, this question to me revolves around the issue of who can best control costs, who has the best incentive to eliminate abuses, and who can achieve the best productivity of the pool of funds without risk of the principal? Answers to these questions determine where the reservoir of pension funds should be placed.

8. Should retirement funds be funded currently or should public sector retirement provisions be made on a "pay as you go" basis?

One way to provide for a man's pension is to set aside a sum of money, actuarily determined each year that he works, put it in a retirement fund, invest it suitably and then when he retires he draws from this fund. In a sense, he, through his FICA payroll deductions, and his company (or series of companies) through their matching FICA payroll deductions and through their own additional private pension plan contributions, are buying his specific pension benefit. It is either properly funded or improperly funded, but nevertheless, it is funded and moneys are set aside for him and for his future use. If he dies before the norm, his excess funds are used by the fund to pay for the man who lives beyond the norm, etc.

Opposing this method, is the one currently used by the social security system which was never funded from the beginning and which apparently has never attempted to be. Current FICA contributions from one man and his employer are funnelled to the social security coffers where they are not set aside for this man at all but are spent on some other man long since retired for whom no such monies were put into the fund, or for whom inadequate sums were put in. One might say that we're robbing Peter to pay Paul—In fact, we are, and it'll all presumably turn out all right if tomorrow we can rob Joe Zilch to pay Peter. But if something "blows" in this whole process (likened to a giant kiting operation) and Joe Zilch doesn't put in or doesn't put in enough, Peter isn't going to get paid and somehow I don't think the Peters of this country are really aware of this nicety just now. Needless to say, I prefer the former approach.

An interesting observation in one of the studies illustrated in my book is the amount of retirement benefit that the combined employers' and employees' FICA contributions would provide upon retirement compared with the published benefit that a current 25-year-old working man has to look forward to from social security. The amount that would be provided in the private sector from the same source of funds would be almost double that indicated as the promised social security benefit.

If I were the 25-year-old worker and was aware of this, I might be tempted to say "why do I need social security then—I'm better off putting the same moneys into a private fund and forget about social security?"

This prompts me to raise the question "Is our social security vehicle obsolete and should it be junked and replaced by an entirely different mechanism?"

9. How important is a significant change in the dependency ratio?

In my view, the only reason why dependency ratio is important at all stems from the historic method of funding social security and other public sector retirement payments, i.e., what I describe as a gigantic "kiting system." Continuing down this same funding path will surely mean that the demographics of tomorrow will catch up with us via an increasingly burdensome dependency ratio.

The same would not be true under a fairly conventional private sector pension plan where, in essence, today's worker is having his retirement benefit put aside for him throughtout his working life. His retirement payments, therefor, represent a planned disbursement of his retirement fund itself and not a burden upon the then current work force that the worker has left. Under such a funding mechanism the size of the future work force vis-a-vis the size of the ranks of retirees has no pertinence. The only difficulty might be the solvency of the retirement fund itself through improper management or through inadequacy of planned retirement benefits in the face of future inflationary erosion of effective purchasing power.

This difference in funding approaches between public sector and private sector provision for retirement benefits seems irrevocably irreconcilable, but is it? Is it totally out of the question to compute what a proper fund should be to adequately provide future commitments of public sector social security and retirement plans and is it totally inconceivable that such funds could actually be set aside, either lump sum, or progressively over a period of the next 20 years or so, to the end result that at a certain future period of time all retirement funds, both public sector and private, would be in fact on one universal "funding as you work" system. At such a point of time, dependency ratio would be a meaningless and academic terminology.

An additional point in this regard is not to overlook the psychological and moral value of the concept that each person earns his own retirement pay. Not to equate more closely persons working for retirement benefits with the level and value of retirement benefits themselves is to me an error in strategy. The concept that society in general and the government specifically "owes me a living" is a very objectionable and debilitating concept to me.

10. What impact will elimination of mandatory retirement have upon the retirement plans and other fringe benefit plans of the industrial sector?

I certainly have no credentials to speak for the industrial sector at large, and as the Bankers Trust "Study of Corporate Pension Plans" shows, there is a fairly wide divergence of pension plan specifications within the industrial sector itself. Corporate pension plans are certainly not static things; in my experience it is a rare year when there is not some change that is made in a corporate pension plan, entirely apart from adjusting to governmental legislation requirements. Employee benefit plans, including pensions, represent a never-ending and almost restless dialog with employee interests and attitudes and this will not change, in my opinion.

Many pension plans have had a mandatory retirement provision in the past. In my personal experience, such provisions seemed more as guidelines than as arbitrary rules locked in concrete. It is frequently the practice that employees of retirement age who wish to continue working and have a hardship case to plead if retired, are frequently granted a deviation of retirement policy by action of the corporate board of directors. I don't know how widespread this practice is, but it certainly has been quite common in my own experience.

It is not the natural motivation of the industrial corporation in displacing a person who has reached retirement age merely to create a job opening for another person, currently unemployed and waiting for a job opportunity.

It may sometimes be the corporate view to replace a more expensive employee, who has had a series of wage progressions to the point where he or she is overpaid for a given job, with a younger, newer recruit who can start the wage progression cycle at a lower point and, hence, provide the corporation with a temporary (and probably deceptive) cost advantage.

It may also be to the corporate interest to have some mechanism to gracefully replace an executive-level employee who has reached a certain chronological milestone with a younger executive who needs advancement and the opportunity to assume greater responsibility. Rapidly growing corporations create such opportunities in the normal course of their growth, but corporations that are not growing so rapidly often do not create sufficient advancement opportunities to fulfill the needs of its cadre of up-and-coming young hopefuls. The result can be stagnation at the top of the corporate ladder and increasing transcience among the young hopefuls who get tired of waiting and flee to another corporate opportunity elsewhere. But this problem is an internal corporate one and does not belong to the legislative domain to seek a solution, in my opinion.

I don't believe that corporations in general feel any "mission" per se to create more jobs, reduce national unemployment, etc. Therefore, I, personally, do not see why the elimination of mandatory retirement at age 65, or even at age 70, should greatly change the corporate approach to retirement plans and/or other fringe benefit plans. I believe that industrial corporations will merely amend their plans to accommodate the new philosophy and proceed to adjust their own local personnel practices and strategies to best meet their own needs from an employee motivational and from a cost containment standpoint.

SOME POSSIBLE APPROACHES TO THE ECONOMIC USE OF AN AGING WORKING POPULATION

I have a great deal of respect for the resourcefulness of corporate institutions when confronted with the need to solve a given problem and I have no doubt that if Congress elected to eliminate the element of discrimination on the basis of age entirely, without reference to even a 70-year-old chronological benchmark, that our industrial institutions would find, in due time, innovative and resourceful ways of constructively meeting this new challenge. I feel certain that many are well along on this path even now. I feel that it is appropriate for the Federal Government to establish the social philosophy and leave the implementation and experimentation up to the private institutions themselves as how best to comply.

Here are some ideas that might form the basis of some experiments in this area:

(a) When employees reach an early retirement "trigger date," they may have the following options:

(1) Elect early retirement, at actuarially reduced benefits.

(2) Continue working full time in present job.

(3) Go into a manpower pool of part-time employees available for short-term assignments that would replace the use of outside temporary services and the use of overtime for present inside employees.

(4) Go on a progressive program of increasing time off, that grows each year. Employee would draw only basic wage for time worked and start to draw down partial retirement benefits for time not worked, to an agreed formula actuarially determined.

(b) Undoubtedly, preretirement counseling will become a much more significant activity of the industrial institutions in the future. An outgrowth of this could be a growing interest in and a need for "out-placement assistance" where corporate industrial relations departments work with aging employees on a planned basis to assist in defining lifestyle goals and objectives for the employee and in designing a personalized implementation program to assist the employee in phasing into his defined post-industrial role.

(c) Our corporate experience reminds us that many things have a life cycle, i.e., a demand curve that rises, peaks, and declines. Certainly industrial products have such a life cycle—and why not an individual worker? Why does the wage have to go constantly onwards and upwards? When a given worker is no longer worth the wage he is being paid, or is physically incapable of performing this job efficiently and safely, why must termination be the only answer? When the above have been assessed to be valid, why not offer the employee another, lesser job in the corporation, one with a lesser wage as well? If an employee would accept a downgrading assignment gracefully, isn't it to the corporation's interest to have him do so? I believe it is. It is only the matter of ego that is a deterrent to what could be a pragmatic solution.

It is interesting to note from an article appearing in the economy and business section of Time magazine in the May 15, 1978 issue, that in Denmark certain "decruitment" experiments are being tried out, in the recycling of older, middle, and top managers to lower level jobs after they reach the age of 60. This program, pioneered by Co-op Denmark, reflects a survey of Danish managers over 50 years of age, where 70 percent of such managers preferred downgrading to retirement. Some people in this program expect to work past the age of 80.

Certainly, some experimentation along these lines would be useful and should be encouraged in our own country.

(d) Public sector and governmental service types of assignments could and should be made increasingly available for aging citizens. The mobility factor associated with offering new productive activities to older citizens is certainly a problem area, because many older persons would be reluctant to uproot and move away from their sphere of familiarity. But there are many public sector services now being performed at the local level, and if the need were there to capitalize on a mature and capable local resource like our aging retirees from the private sector, I feel sure there are even more public sector functions that could be decentralized and performed at the local level by his cadre of senior citizens.

These are only a few of the avenues that could be explored to find ways of increasing the productive utilization of our aging population. I am sure that future examination and discussions of this subject will develop many constructive suggestions for consideration.

CONCLUDING REMARKS

I realize that the objective of this initial hearing on this highly important and sensitive subject matter is essentially to pose the issues that are present. Returning then, to this objective to summarize, I consider that:

(1) There is a very real problem in the issue before us. That the present retirement practices and trends of our economic society, coupled with increasing longevity of our population, will create an enormous economic future burden upon our society.

(2) This burden can be relieved to a considerable extent by eliminating the mandatory feature of our retirement philosophy and allowing interested workers to continue actively in the work force on some basis for a longer period of time, reducing their need for retirement funds.

(3) The presently defined retirement age population of our work force represents a useful and valuable resource, an asset, or an investment if you will, that should be utilized, again on some variety of bases, perhaps entirely different than the mere continuation of their historic activity.

(4) The divergence of present pension benefits, specifications of retirement plans and means of assuring adequate funding, among the various elements of our society, both public and private, need serious reexamination and there is a fundamental need to redefine the objective of retirement itself, retirement pay, the "logic" of the wage continuation after productive employment ceases and the role of the Federal Government itself in this process.

(5) I congratulate this committee on recognizing the importance of this subject matter and initiating this dialog, which I am sure will become highly worthwhile and constructive as it develops over the future months and even years ahead.

(6) I wish to express my appreciation for the privilege of being allowed to present my personal thoughts, observations, and ideas on this subject and hope that perhaps a few of them may contribute somewhat to the success of your inquiry.

I thank you.

Senator CHURCH. Thank you very much.

We will look also to your other final recommendations. I want to commend you for an excellent statement and for a very fine, fluid, and well informed presentation. We appreciate it very much.

Mr. BABSON. Thank you.

Senator CHURCH. The hearings will be adjourned.

[Whereupon, at 12:06 p.m., the hearing adjourned.]

APPENDIX

CORRESPONDENCE RELATING TO HEARING

ITEM 1. LETTER AND ENCLOSURE FROM SENATOR FRANK CHURCH, TO HON. ALAN K. CAMPBELL, CHAIRMAN, CIVIL SERVICE COMMISSION, DATED JULY 31, 1978

DEAR MR. CHAIRMAN: Thank you very much for participating in our recent hearing. We appreciated the opportunity to receive your firsthand report on procedural and conceptual changes which will accompany the end of mandatory retirement for the most Federal employees. We also appreciate the invitation to stay in close touch as you put new procedures into effect. It is clear that Federal agencies will be required to exercise great sensitivity and ingenuity in meeting the challenges ahead.

I have compiled a list of questions and requests either made at the hearing or added since. We would like to have this additional material by September 5 for inclusion in our hearing record. If it is not possible to give a final statement on any individual matter, I would be glad to have an interim response indicating when the additional information will become available.

With best wishes,

Sincerely,

FRANK CHURCH,
Chairman.

[Enclosure.]

QUESTIONS FROM SENATOR FRANK CHURCH

Question 1. You point out that only 1,773 persons, or about 2 percent of all those retired in 1977 from the Federal service were mandatorily retired—at age 70 or above. Would you say that one reason for the small number of those mandatorily retiring may be the Federal agencies have, from time to time, offered inducements for early retirement in order to comply with a job freeze or other restriction?

Question 2. We've heard a great deal said in the past 2 days about the heavy cost to the economy of earlier and earlier retirement. Are you concerned about an average retirement age of 58.3 years for Federal employees?

Question 3. A July 15 "Federal Diary" article in the Washington Post said that the Federal Government is developing a middle-age spread of about 230,000 persons who are old enough and with enough service to retire on a full pension. Do you think that they should be retired now or do you think there might be good reason to try to persuade them to stay? Eligibility age for full retirement in civil service now stands at 62 years with at least 5 years of service, 60 years with 20 years of service, and 55 with 30 years. Do you think these are appropriate ages at which to provide full benefits?

Question 4. You use the future or conditional tense when you talk about approaches to such performance evaluation possibilities as:

Positions described by skills and abilities.
Fair and effective performance appraisals.
Self-analysis and career planning.

How far along are you toward any of these goals? Had you started toward them before this year's law banning mandatory Federal retirement went into effect? How are you working with unions to win their cooperation in arriving at fair and effective performance appraisals?

Question 5. What can be done to make what we now call preretirement training a more dynamic and acceptable process?

Question 6. The committee understands that phased and partial retirement have had limited acceptance in the Federal service. Does the problem relate to the way in which this option was presented? What can be done to make it more attractive?

Question 7. You endorsed flexitime and part-time work arrangements in your statement. In recent testimony before the Governmental Affairs Committee I pointed out the potential importance of such work arrangements to the older worker. I suggested either statutory or report language to emphasize that part-time employment positions should not be confined almost exclusively to the lower grades. Do you agree? In addition, I suggested that the Civil Service Commission should be encouraged to develop personnel regulations to give career workers the option of selecting career part-time status and returning to full-time career status. Do you agree?

ITEM 2, LETTER FROM HON. ALAN K. CAMPBELL,[1] CHAIRMAN, CIVIL SERVICE COMMISSION, TO SENATOR FRANK CHURCH, DATED SEPTEMBER 6, 1978

DEAR SENATOR CHURCH: This is in reply to your letter requesting answers to additional questions which have occurred since the hearing held by our committee on July 19, 1978, concerning "Retirement, Employment, and Lifelong Learning." I have answered the questions in order as presented in your letter.

[*Question 1.* You point out that only 1,773 persons, or about 2 percent of all those retired in 1977 from the Federal service were mandatorily retired—at age 70 or above. Would you say that one reason fot the small number of those mandatorily retiring may be that Federal agencies have, from time to time, offered inducements for early retirements in order to comply with a job freeze or other restriction?]

Response. In the public sector, like in the private sector, it sometimes becomes necessary to reduce the number of employees on the rolls, or the number of employees to be hired. There are several reasons for this, such as the discontinuance or reduction in certain work. Congress may decide to discontinue all or parts of programs, or funds may be reduced. For whatever reason there is a cutback, Federal agencies offer inducement for early retirement. That is, the Civil Service Retirement System provides that an employee under the retirement system who is involuntarily separated from the service is entitled to an immediate annuity if:

(1) He or she has been employed under the retirement system for at least 1 year within the 2-year period immediately preceding the separation on which the annuity is based, and

(2) He or she meets either of the following minimum requirements:

(a) Attainment of age 50 and completion of 20 years of creditable service, including 5 years of civilian service, or

(b) Regardless of age, has completed 25 years of creditable service, including 5 years of civilian service.

Figures show, however, that out of the total number of retirees (85,568), only 3,636, or little over 4 percent, were separated under this provision in fiscal year 1977. There are no available statistics which would show how many of the employees, who retired under other provisions of the law, may also have been subject to the reduction in force situation. But, a reduction in force situation probably would have little effect on the number of employees subject to mandatory retirement at age 70.

[*Question 2.* We've heard a great deal said in the past 2 days about the heavy cost to the economy of earlier and earlier retirement. Are you concerned about an average retirement age of 58.3 years for Federal employees?]

Response. Naturally, we are concerned when employees retire at an early age, particularly when the retiree receives an annuity which may not meet his needs (there are some annuitants receiving less than $200 per month). A chart showing the number of employee annuitants and survivor annuitants on the retirement roll as of September 30, 1977, by monthly rates of annuity is attached.

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[1] See statement, page 177.

LE B-2.—EMPLOYEE ANNUITANTS ADDED TO THE RETIREMENT ROLL DURING THE FISCAL YEARS 1921 TO 1977 ... 1977, BY FISCAL YEAR RETIRED

Fiscal years	Number on roll Sept. 30, 1977	Total	Mandatory 15 yrs' service	Disability	Optional: 30-yr service, Age 55	Optional: 30-yr service, Age 60	Optional: 20 to 29 yrs' service, ages 60 to 61	Optional: 12 to 29 yrs' service, age 62	Optional: 5 yr service
1–30	7	27,759	20,897	6,862					
1–40	517	72,868	32,775	20,676		7,809			
1–50	9,695	154,490	20,406	46,840	4,608	29,634		17,429	31,6
1–60	91,257	341,897	30,118	102,678	23,589	66,091		54,699	56,7
1	21,470	80,228	4,090	16,601	3,136	7,358		11,547	1,8
2	23,619	50,624	4,127	16,737	2,980	6,780		12,111	1,9
3	25,456	49,666	4,328	15,439	3,006	6,575		13,371	1,2
4	29,745	53,449	4,258	17,490	3,180	6,857		14,238	1,0
5	30,982	51,996	4,155	17,927	3,229	6,235		13,196	8
6	51,171	77,900	3,267	20,098	7,418	14,419		22,077	1,2
7	33,701	48,759	2,475	15,434	5,192	4,302	3,644	10,186	8
8	38,227	62,579	3,031	15,094	5,697	5,169	4,153	11,166	8
9	41,604	65,154	2,618	15,748	5,790	6,006	4,679	12,482	1,0
0	52,287	65,313	2,399	16,718	7,746	7,783	5,431	13,980	1,1
1	68,013	81,812	2,298	20,715	8,826	8,079	6,091	15,077	1,3
2	90,174	81,307	2,028	19,996	11,921	9,713	5,591	14,212	1,2
3	110,321	122,883	1,902	25,652	18,922	16,416	6,638	17,717	1,7
4	122,902	133,318	1,376	30,015	24,397	19,439	6,893	18,234	2,0
5	93,318	99,767	1,561	31,875	15,456	10,028	4,102	10,783	1,6
6	97,719	79,469	1,509	31,170	14,010	8,634	3,499	8,863	1,4
nsition quarter[1]		22,945	428	9,027	3,746	2,019	1,031	2,338	4
7	84,377	85,568	1,773	33,036	16,649	9,312	3,834	10,049	1,7
Total	1,096,561	1,859,591	151,816	545,728	189,408	258,658	55,586	303,755	1

[1] Not available.

We would like to point out here, however, in answer to your question, that while the average retirement age for a Federal employee may be 58.3, nearly 43 percent of persons who retired in fiscal year 1977 were age 60 or over. Those who retired at a much earlier age, thus bringing the average age down, included air traffic controllers, who are mandatorily retired at age 56, due to the uniqueness of their profession; firefighters and law enforcement officers who are eligible to retire at age 50 with 20 years of service (because of the need for a young and vigorous work force in these occupations), and those employees mentioned earlier who were separated involuntarily.

[*Question 3.* A July 15 "Federal Diary" article in the Washington Post said that the Federal Government is developing a middle-age spread of about 230,000 persons who are old enough and with enough service to retire on a full pension. Do you think that they should be retired now or do you think there might be good reason to try to persuade them to stay? Eligibility age for full retirement in civil service now stands at 62 years with at least 5 years of service, 60 years with 20 years of service, and 55 with 30 years. Do you think these are appropriate ages at which to provide full benefits?]

Response. The fact that an individual has reached a certain age or has served a certain number of years is not sufficient reason to persuade or encourage him, or her, to retire, or not to retire. The Federal Government often loses a skilled employee at the peak of his career through retirement. This has always been, and will continue to be a problem, especially when retirement benefits make it economically feasible for the employee to retire at an earlier age. It must be kept in mind, however, that the liberalized benefits are necessary in order for the Federal Government to attract and retain competent employees in competition with private industry.

[*Question 4.* You use the future or conditional tense when you talk about approaches to such performance evaluation possibilities as:

Positions described by skills and abilities.

Fair and effective performance appraisals.

Self-analysis and career planning.

How far along are you toward any of these goals? Had you started toward them before this year's law banning mandatory Federal retirement went into effect? How are you working with unions to win their cooperation in arriving at fair and effective performance appraisals?]

Response. The future and conditional tenses were used in referring to the three possibilities listed in the question to indicate that they are not existing accomplishments but are among several proposals being considered as ways to improve personnel management in general and performance appraisal in particular. These improvements are intended to apply to Federal employees regardless of age. In the areas of performance requirements and performance appraisal, developmental work was underway well before enactment of Public Law 95–256 banning age 70 mandatory Federal retirement. Such basic improvements, however, are especially applicable to the needs of older workers. There has not yet been any substantive work on the self-analysis and career planning techniques as applied to the older employee.

Material on performance appraisal published last year was submitted to unions as well as other interested organizations and agencies for comments and suggestions which were carefully considered before publication. The same practice will be followed wherever feasible. We recommend to agencies which are undertaking changes in their performance appraisal systems to involve unions in early stages of planning and all along the process through the implementation of the new systems.

[*Question 5.* What can be done to make what we now call preretirement training a more dynamic and acceptable process?]

Response. There is nothing to add at this time to our previous comments concerning preretirement training or counseling.

[*Question 6.* The committee understands that phased and partial retirement have had limited acceptance in the Federal service. Does the problem relate to the way in which this option was presented? What can be done to make it more attractive?]

Response. Phased and partial retirement has never been formally presented. Information has only been presented to agencies through a Civil Service Commission bulletin. As stated in our letter of June 27, 1977 to the committee, participation in agency gradual retirement programs was slight in the most recent survey conducted by the Commission. This may, in part, be attributable to the civil service retirement law's liberal age and employment requirements for retirement.

Many civil service workers are eligible to and do retire at age 55 (after 30 years service). These people probably contemplate working in private industry or for themselves after retirement. They may not be interested in total immersion into the "leisure life" of a bona fide retiree. Another obstacle to gradual retirement participation is the before-the-fact commitment to retire at a specific future date. They are reluctant to participate because of such future uncertainties.

Methods of increasing agency and employee participation are simple and basic. First, greater publicity would have to be afforded to gradual retirement. Second, explanations of the advantages that would accrue to them through gradual retirement programs would have to be given to agencies and employees.

At this time, we cannot say whether more agencies are considering the implementation of gradual retirement programs. We consider it highly unlikely.

From what we have seen, the major obstacle to increased use of phased or partial retirement in the Federal service is an economic one. Under our current system an employee's annuity is computed on the basis of length of Government service and the highest average pay received during 3 consecutive years of employment. Because of career progression and the effects of annual Government pay raises, an employee's highest salary generally occurs at the end of his or her career. Employees who opt for phased retirement by working part time, cut themselves off from the effect of this annual increase in their annuity, since their "high 3" pay level would probably have occurred before they began working part time. The longer an employee works part time before final retirement, the more he or she "loses." Although the amount of their creditable service increases, it is not enough to offset the loss of annual pay raises. Employees realize this and are generally reluctant to "phase out."

[*Question 7.* You endorsed flexitime and part-timework arrangements in your statement. In recent testimony before the Governmental Affairs Committee I pointed out the potential importance of such work arrangements to the older worker. I suggested either statutory or report language to emphasize that part-time employment positions should not be confined almost exclusively to the lower grades. Do you agree? In addition, I suggested that the Civil Service Commission should be encouraged to develop personnel regulations to give career workers the option of selecting career part-time status and returning to full-time career status. Do you agree?]

Response. As I indicated in my testimony, this administration is taking a number of steps to increase the availability of part-time employment in the Federal service. One of our actions has been to emphasize increased part-time employment in professional positions at GS-7 and above. While we do not yet have complete reports of agency progress in this area yet, our belief is that substantial gains have been made over the last year. I should add, however, that we do not favor the "earmarking" of a specific percentage of jobs at each grade level as part time along the lines proposed in various legislation. This would severely limit the staffing flexibility of Federal employees and could restrict promotion opportunities for current full-time employees.

Current civil service regulations give agencies the authority and responsibility for setting work schedules. Agency officials can then permit employees to voluntarily switch from full time to part time and vice versa as the situation demands. Although we encourage agencies to accommodate employee needs in setting work schedules, the requirements of the organization take precedence and not all employee desires can be realized.

For the future, we may need to make some changes in this arrangement. The growing number of women in the work force and the desire for more employee control over the quality of work life are certain to increase the need and demand for part-time employment. Some European countries have already recognized this situation and given public employees the right to switch from full time to part time under certain circumstances, e.g., if they have child caring responsibilities. We will be looking at these arrangements in developing our recommendations for the President on Federal part-time employment next year.

I hope the foregoing will be helpful for inclusion in your hearing record.

Sincerely yours,

ALAN K. CAMPBELL,
Chairman.

ITEM 3. LETTER AND ENCLOSURE FROM SENATOR FRANK CHURCH, TO STANLEY M. BABSON, JR., NEW CANAAN, CONN., MANAGEMENT CONSULTANT, AND FORMER PRESIDENT OF FINANCE, TECHNICON CORP., DATED JULY 31, 1978

DEAR MR. BABSON: Your excellent statement at last week's hearing provided a fitting finale to our opening round of testimony. Your view from the private sector supplemented the viewpoints heard earlier in constructive and challenging ways. Thanks once again for participating.

I have compiled a list of questions and requests either made at the hearing or added since. We would like to have this additional material by September 5 for inclusion in our hearing record. If it is not possible to give a final statement on any individual matter, I would be glad to have an interim response indicating when the additional information will become available.

With best wishes.

Sincerely,

FRANK CHURCH,
Chairman.

[Enclosure.]

QUESTIONS FROM SENATOR FRANK CHURCH

Question 1. You heard the previous witness discuss Civil Service Commission plans for dealing with the end of mandatory retirement at age 70 in the Federal service. How adequate, in your opinion, will that program be?

Question 2. You have suggested that the Federal Government has a strategic role in defining the minimum and perhaps maximum standards of what constitutes a suitable retirement income. What do you think the minimum monthly and annual standard should be today?

Question 3. One of the major issues for our hearings is the appropriate role for the private and public sectors in responding to retirement income adequacy. I realize that it may not be possible now for you to tell us quantitatively what the appropriate mix should be. But could you outline in broad principles what would be the proper role of each and what emphasis should be placed upon public and private efforts to respond to the retirement income needs of older Americans?

Question 4. You also talk of short-range and superficial advantages to a company from an employee's severance motivated solely by cost reduction. Does the same apply to retirement? The notion of "making way for younger workers" often blinds assets the firm may be losing when enforced retirement is imposed. Do you agree?

Question 5. You have been associated with large corporations and with smaller firms. Have you seen, in any of the organizations you have been associated with, recognition of your concept of the employee as an asset instead of a cost?

Question 6. You talk about a "semiretirement fund" for employees who do not wish to work full time after some years with the company. How would this work? How would you prevent it becoming a prop for employees who want to coast restfully on the job, and who think that they will be able to do so on reduced pay for reduced hours?

Question 7. You mention in your testimony a study, cited in your book, which asserts that a current 25-year-old working man would gain more from a private investment fund than from social security. I am sure you know that social security, in addition to providing retirement income with cost-of-living adjustments, also offers survivors and disability benefits, as well as hospital insurance protection. Do your calculations take these factors into account?

Question 8. The 1975 Social Security Advisory Council recommended that serious consideration be given to extending gradually the eligible age for unreduced benefits for retired workers from 65 to 68, starting in the year 2005 and ending in the year 2023. Do you believe that this would be a socially desirable policy for future social security beneficiaries?

Question 9. You seem to suggest (bottom of page 34 and top of page 35) a pooling of funds by social security and retirement funds progressively over the next 20 years or so that "at a certain future period all retirement funds, both public sector and private, would in fact be one universal funding-as-you-work system." I would like more details. For example, how do you deal with current needs while building the universal funding system?

ITEM 4. LETTER FROM STANLEY M. BABSON, JR.,[1] NEW CANAAN, CONN., MANAGEMENT CONSULTANT, AND FORMER PRESIDENT OF FINANCE, TECHNICON CORP., TO SENATOR FRANK CHURCH, DATED AUGUST 28, 1978

DEAR SENATOR CHURCH: Thank you for your kind letter of July 31. I am glad you felt my statement before your committee hearing was constructive and useful and I am happy to be able to participate in this very excellent and important undertaking.

You have forwarded to me certain additional questions which have arisen out of the study of my testimony and I shall endeavor to answer them herewith to the extent feasible in letter form.

[Question 1. You heard the previous witness discuss Civil Service Commission plans for dealing with the end of mandatory retirement at age 70 in the Federal service. How adequate, in your opinion, will that program be?]

Response. I have no familiarity at all with the Civil Serivce Commission and I feel it would not be appropriate for me to comment on this particular question.

[Question 2. You have suggested that the Federal Government has a strategic role in defining the minimum and perhaps maximum standards of what constitutes a suitable retirement income. What do you think the minimum monthly and annual standard should be today?]

Response. As I indicated in my testimony, I feel that a "norm" in the private sector would be around 1½ percent of final 5 years average compensation, times years of service. This would mean that 40 years of service would provide a retirement benefit of 60 percent of pay, and 50 years of service, 75 percent of pay. Years of service in my concept would be years of service in the productive mainstream, whatever series of companies may be involved. I have recommended complete portability of retirement contributions, with no forfeitures at all.

This "minimum" concept does not preclude superimposed thrift plans on top of the pension plan, nor does it preclude even a more liberal retirement income feature, if such is the basis of the productive career of an employee.

I do personally favor putting some form of ceiling on the retirement feature, if only as a control against inflation. I would not approve any accumulating of pension benefits that yielded over 100 percent of final 5 years compensation after 40 years of service.

[Question 3. One of the major issues for our hearings is the appropriate role for the private and public sectors in responding to retirement income adequacy. I realize that it may not be possible now for you to tell us quantitatively what the appropriate mix should be. But could you outline in broad principles what should be the proper role of each and what emphasis should be placed upon public and private efforts to respond to the retirement income needs of older Americans?]

Response. As indicated in my text, I believe that the Government's role should be to define the minimum retirement benefit that is socially acceptable in our country in the present era; to police this policy, see that such benefits are adequately and soundly funded and that abuses and discrimination are controlled.

I feel the Government's role in the public sector amounts to, or should amount to, the same thing as in the private sector and that the present "giant kiting system" approach to public sector financing of retirement disbursements be totally changed over to a system paralleling the common practice in the private sector. I believe that the individual himself and his accumulated roster of employers should have the burden of providing for his retirement needs on a "pay-as-you-go" basis.

I believe the Government's only role in this, except insofar as it is the "employer" of public sector employees is to define the social policy and see that it is fairly and properly implemented.

Without doubt, there will be a large body of present retirees to whom this logic cannot apply because no such funding was set aside for them historically. These present retirees represent a financial obligation that must be faced and liquidated outside of this proposal. What I am proposing is to cover new employees entering

[1] See statement, page 186.

the productive mainstream and as many of existing workers as practical. It will admittedly take a generation or so to resolve the burden of transition from our past method of funding retirement benefits and what I am proposing for the future.

[*Question 4.* You also talk of short-range and superficial advantages to a company from an employee's severance motivated solely by cost reduction. Does the same apply to retirement? The notion of "making way for younger workers" often blinds assets the firm may be losing when enforced retirement is imposed. Do you agree?]

Response. When companies are seeking ways to prune costs, for whatever reason, they almost invariably look at payrolls to see what can be reduced from roster. Marginal employees are weeded out in this process, where possible, and also it is not uncommon to try to persuade employees who are nearing retirement to step aside and retire earlier. Some companies even offer pay incentives to encourage these employees to elect earlier retirement. The logic here is that such an incentive bonus is a "one-shot" payment that hurts earnings per share initially, but is designed, after the initial impact, to shift the payroll, which is an annually recurring change for this employee, away from current profit and loss impact and instead into the disbursement from retirement fund category, which does not affect current year profit and loss. This strategy does reduce annual costs to the corporation, after the initial incentive bonus is paid. It also does allow younger workers to remain with the company and not face the cost reduction "axe." The fact that a valuable asset to the company and to society, in the form of the mature and experienced worker who is placed on retirement, is lost for what appears to be a short-term economic gain, is, in my view, somewhat deceptive and illusory, particularly when viewed in the context of society at large.

[*Question 5.* You have been associated with large corporations and with smaller firms. Have you seen, in any of the organizations you have been associated with, recognition of your concept of the employee as an asset instead of a cost?]

Response. I think I would have to answer this question in the negative. While obviously, in individual cases, the asset value of a particular person is widely recognized, the application of this concept to employees generally is not.

[*Question 6.* You talk about a "semiretirement fund" for employees who do not wish to work full time after some years with the company. How would this work? How would you prevent it becoming a prop for employees who want to coast restfully on the job, and who think that they will be able to do so on reduced pay for reduced hours?]

Response. A good question and possibly a thorny one. The "semiretirement fund" could not become operative before a certain chronological date, let us say age 60, for example. Not all jobs within a given company must necessarily be eligible for such a program, so an employee moving to this program from full assignment might have to accept a different duty. Even if the new assignment only calls for 20 hours per week, or perhaps, if seasonally set up, only 30 weeks in the year, there would still have to be performance characteristics for the job which must be met, or the person would be asked to resign from the position. This would be the same as any full-time job now. If you don't perform the job adequately, you are dismissed. Also, the economics of the semiretirement fund should be established as an incentive to work, not as an incentive for nonwork. The mechanism is really designed to accommodate those employees who are tired and wish more time off to pursue other interests: its merit lies in the deferrral of the horrendous economics of full early retirement for too protracted a period of remaining life for an employee who wants some form of reprieve from full work.

[*Question 7.* You mention in your testimony a study, cited in your book, which asserts that a current 25-year-old working man would gain more from a private investment fund than from social security. I am sure you know that social security, in addition to providing retirement income with cost-of-living adjustments, also offers survivors and disability benefits, as well as hospital insurance protection. Do your calculations take these factors into account?]

Response. I am aware of the fact that social security offers protective payments for more than just retirement alone, but it is difficult to separate out the costs of these other features and isolate a true "applies to apples" comparison. Therefore, my calculations are admittedly somewhat simplistic. I feel quite sure, however, that whatever refinement in cost comparisons are made, the basic premise would remain true, i.e., that a worker would get significantly more for his dollar under a trusteed private fund than he would get from the social security system. Bear in mind, your social security system is a "giant kiting scheme" and you are still trying to take money from Peter to pay your past deficiency as regards Paul—

there is no way you can do this except by short-cutting Peter and hoping to be able to make it up some future day. This is getting to be an untenable strategy.

[*Question 8.* The 1975 Social Security Advisory Council recommended that serious consideration be given to extending gradually the eligible age for unreduced benefits for retired workers from 65 to 68, starting in the year 2005 and ending in the year 2023. Do you believe that this would be a socially desirable policy for future social security beneficiaries?]

Response. Yes, I believe this would help the economics of supporting the future retirement burden. It is only one recourse, however, and I would advise that you only do this one after, or simultaneously with, the correction of a number of abuses and discriminatory elements already identified in the retirement cost area. To defer the taking down of full social security benefits for one employee while still allowing, let us say, a public sector employee to enjoy a highly liberal retirement formula would be intolerable. You can't continue to have armed services non-combatant personnel earn full retirement benefits after 20 years, or the 2½ percent per annum formula for certain congressional members and pay for these lush benefits with the "stretched" timing of full social security pay eligibility for the rank and file employees in the United States. This would be unthinkable. I'd suggest correcting the abuses and reducing the discrimination first; plus, encourage more years of productive employment by eliminating the mandatory retirement date feature, also by allowing the flexibility of working part time and starting to draw down some partial retirement supplemental pay. Then, when all these things are done, it may be appropriate to make the move to deferring the date for eligibility of full social security benefits.

[*Question 9.* You seem to suggest (bottom of page 34 and top of page 35) a pooling of funds by social security and retirement funds progressively over the next 20 years or so that "at a certain future period all retirement funds, both public sector and private, would in fact be one universal funding-as-you-work system." I would like more details. For example, how do you deal with current needs while building the universal funding system?]

Response. There are two points that lie behind this question. The first relates to the private sector plans. Back in the distant past when the Federal Government had little control over, or visibility of, private pension plans, and even when there were few such plans in existence, there was a need for public sector funding, i.e., the social security system. The same conditions as existed then are far from today's present private pension scene, and while even the most recent legislation as regards private plans needs further "sharpening," nevertheless, the private plans are certainly now under good Federal vigilance and meeting such prescribed minimum specifications as have been to date promulgated. This being so, there is a redundancy in private sector pension plans and the social security system as it relates to employees covered by private plans. If you accept my recommendations for complete portability of private sector pension benefits for a given employee, then his pension funding (derived from his personal payroll contributions to social security, his employer's payroll contributions to social security, plus his employer's supplemental contributions into the defined private pension fund) are unnecessarily cumbersome and no longer serve the useful purpose planned in the past by the establishment of the social security system itself. I envisage that employee A will start work for company X and he will contribute a defined contribution toward his own ultimate pension benefit out of his weekly payroll. This contribution is presently going into a social security fund where matching contributions by his employer are also directed and credited to his account.

With the present status of Government regulation of private pension plans, in my opinion, such funds are more appropriately contributed *directly* into the employer's duly qualified pension fund together with the additional contributions required of the employer to properly fund this qualified plan on an annual basis. To split these various contributions between a Government social security fund and a private pension plan no longer serves a useful purpose in my view. I am sure that Government economists would agree and opt that all such funds go entirely into a social security pool. In this I disagree. The Government's direct access to, and control of, such funds does not serve the best interest of the employee himself nor the employer, inasmuch as there is no preservation of the integrity of funds earmarked for a specific employee. Nor is there adequate incentive for Federal administrators to optimize the productivity of the funded investments, maximize their yield, control costs and eliminate abuses. These highly important economic necessities are more likely to be found in the private sector than in the public sector.

Therefore, it is my recommendation that for such private sector employees and employers, all pension contributions be funded privately by the employer. Complete 100 percent portability be required for all contributions. Certification of adequate cash funding be required by law annually of all employers, assuring that control of funds has been placed beyond the corporate reach (except for the efficient management of fund resources). As employee transfers, for whatever reason, from company X to company Y, his total accumulated pension contributions in pension plan of company X, with accumulated earnings plus appreciation of portfolio, or its equivalent, would be transferred without forfeiture of any kind to the pension fund of company Y, where it would be "folded in" for the benefit of employee A into company Y's own pension trust vehicle, etc.

In the public sector, the funding crisis is really approaching critical proportions. In spite of this, I believe the same rules, the same definitions, the same techniques should be set up in parallel fashion to those of the private sector. Whether you call the public sector pension fund "social security" or some other name, or define some other vehicle, is immaterial, but the concept should parallel that of the conventional private sector pension plan on a going forward basis.

And how, you ask, do you take care of the transition from the present unfunded status to this new concept for public sector employees? In my view, you treat this as you would any new pension plan established by a company in the private sector. You calculate an unfunded past service liability and you agree to provide such funds over a certain extended period of time, i.e., 20, 30, perhaps even 40 years. The important thing is (a) to go forward on a proper basis and put a curfew on continuation of the past historic inadequate plan, and (b) to have a plan for reducing the unfunded past service liability over an acceptable economic timespan, one that is reasonably realistic.

In conclusion, I apologize for the brevity in treating these highly complex questions. Some of these require much more dialog and examination than I can possibly hope to convey in any letter such as this. The only objective I can accomplish here is to respond initially to your query and stimulate a direction, and perhaps interest, in your future investigation along these lines.

Again, I thank you for the interest you have shown in these ideas and I hope they may be somewhat useful in your project.

Very sincerely,

STANLEY M. BABSON, JR.

ITEM 5. LETTER FROM SENATOR FRANK CHURCH, TO ALFRED B. KIRSHNER, DIRECTOR, NEW YORK TEACHERS PENSION ASSOCIATION, INC., NEW YORK, N.Y., DATED AUGUST 4, 1978

DEAR MR. KIRSHNER: Thank you for your recent letter concerning possible testimony before this committee regarding the public employee pension system.

I appreciate your concern regarding this matter, and would like to invite you to submit written testimony for inclusion in the hearing record for the July 17, 18, and 19 hearings on "Retirement, Employment, and Lifelong Learning." The record will be held open until August 25 for your testimony.

Enclosed please find copies of written testimony submitted by witnesses for our hearings held in mid-July.

If this committee should have any future hearings on retirement policy directly related to pension issues, you may wish to submit additional testimony at that time.

I look forward to receiving your written testimony.

With best wishes,

Sincerely,

FRANK CHURCH,
Chairman.

ITEM 6. LETTER AND STATEMENT FROM WILLIAM WITHERS, PH. D., PRESIDENT, NEW YORK TEACHERS PENSION ASSOCIATION, INC., NEW YORK, N.Y., TO SENATOR FRANK CHURCH, DATED AUGUST 18, 1978

DEAR SENATOR CHURCH: Mr. Alfred Kirshner, one of our directors, has informed me that you are willing to accept a statement from our organization to be included in the record of the recent hearings of the Special Committee on Aging. We greatly appreciate this privilege and the statement is enclosed.

If we can be of any further service, or provide testimony at any future hearings, please let us know. We are anxious to cooperate with you in every possible way.

Sincerely yours,

WILLIAM WITHERS, PH.D.,
President.

[Enclosure.]

STATEMENT OF DR. WILLIAM WITHERS

There are thousands of public pension systems in the United States with funds amounting to $115 billion. Between 75 percent and 80 percent of these systems are contributory. This means that the life savings of millions of retired public employees are involved. In some plans, as much as 50 percent of the assets have been saved by employees from salary deductions during their years of employment. The assets of the New York Teachers Retirement System, despite large contributions from New York City prior to New York's present financial difficulties, are to a very considerable extent the actual savings of the teachers.

But public pensioners in the United States, unlike private pensioners, have little or no protection. During the hearings on ERISA (the Employee Retirement Income Security Act), Prof. Dan McGill, one of the leading authorities on pensions in the United States, pointed out that public pensioners are in as much need of protection as those in private pension systems, and for this reason a task force of the House Committee on Education and Labor was established to study the matter. Its report has been published recently.

The report reveals that most public pension funds are controlled by elected public officials and to a lesser degree by trustees elected by active employees. We find nothing in the report to refute the conclusions of an earlier study made by the Twentieth Century Fund that there exists a great conflict of interest. (Louis Kohlmeier, "Conflict of Interest: State and Local Pension Fund Asset Management," Twentieth Century Fund, New York, 1976.) Based on the decision of Judge Cardoza in *Meinhard* v. *Salmon* (1928), and other cases, the sole responsibility of a trustee is to protect the assets of a trust in the interest of the beneficiaries. But public pension trustees have frequently and flagrantly violated this responsibility by using trust funds for purposes unrelated to the welfare of the beneficiaries. In so doing, they have jeopardized the solvency of the funds they were supposed to protect. The pensioner has been helpless to prevent this. He has no representative on his board of trustees. If he goes to court, he is faced with huge legal expenses and is very likely to lose his case unless he appeals, since the lower courts are hesitant about charging public trustees with fiduciary irresponsibility.

The sad history of what has occurred in New York City since 1975 strongly supports this need for protection. Under pressure from the Governor, the mayor and the controller, and with the support of leaders of the municipal employee unions, the pension funds have been forced to buy millions of city and MAC bonds, most of which are unmarketable and have Caa ratings. To buy these bonds, millions of dollars worth of good pension assets had to be sold by the funds at huge losses. In 1977, the unamortized loss to the teachers pension fund alone amounted to $180 million. Why was this done?

New York City was on the verge of bankruptcy. The banks refused to buy any more city bonds. They were unloading them on customers who have since filed suits. City expenses or salaries were not cut sufficiently to balance the budget. The unions opposed such measures. They demanded salary and cost-of-living increases. Money was available in the pension funds and because the pensioners were unrepresented and had no political influence, fiduciary responsibility was totally disregarded.

As a result, the five city pension funds are now threatened with bankruptcy as well as the city. No permanent or long-run solution to the city's fiscal dilemma has been provided by literally robbing the pension funds of millions of dollars to provide salary and cost of living increases for union members and assist the banks to avoid any sizeable risk taking to finance New York City. Less than 1 percent of the total assets of the large city banks are invested in city securities.

The city controllers' office reported to Congress that 35 percent of the total pension fund assets are already in these securities. This was a gross underestimate intended to make Congress believe that the pension funds could legitimately be expected to buy even more of these bonds. The actual figure is at least 48 percent. The controllers' office included the variable assets in the total assets. The variable assets cannot legally be used to buy these securities and most of the pensioners have claims only to the fixed assets which can be used. If one excludes the variable assets from the total, the five city pension funds are already about 50 percent invested in unmarketable city securities. If private pension fund trustees did this (invested more than 10 percent in the securities of one company or employer's securities) it would be illegal under ERISA, and it is certainly a violation of the common law concerning the obligations of trustees.

What has happened in New York City amounts to political expediency. But it is even worse. It is discrimination against a minority, old retired people, thousands of whom in New York City are receiving pensions of $4,000 a year or less. Many of these small pensions were 50 percent paid for out of employee savings.

What kind of old age discrimination is evil? Is it worse to deny a competent older person a job because of age than it is to rob him of his pension when he retires? The first of these has been prohibited by Federal law, but not the second. Why not? Let us not mince words. What has happened in New York City is outright theft condoned by a Federal statute, Public Law 94–236. Whether the city bonds bought by these funds are ever saleable, many millions of the pensioners' assets were squandered to buy them.

We have been working for 3 years to have the protections of ERISA extended to public retirement systems. There is no logical or moral reason why this should not be done. At the very least, public pension systems should be covered under the insurance provided by ERISA through the Pension Benefit Guaranty Corporation, or a similar corporation should be established to protect public pensioners.

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